104

THE PITFALLS OF A MINIMUM WAGE INCREASE

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES, AND REGULATORY AFFAIRS

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

MAY 14, 1996

Printed for the use of the Committee on Government Reform and Oversight

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THE PITFALLS OF A MINIMUM WAGE INCREASE

TUESDAY, MAY 14, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL ECONOMIC GROWTH,
NATURAL RESOURCES, AND REGULATORY AFFAIRS,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2167, Rayburn House Office Building, Hon. David M. McIntosh (chairman of the subcommittee) presiding.

Present: Representatives McIntosh, Gutknecht, Scarborough, Shadegg, Peterson, Slaughter, and Collins.

Also present: Representatives Clinger and Hastert.

Staff present: Mildred Webber, staff director; Karen Barnes and Charles Griffin, professional staff members; David White, clerk; Bruce Gwinn, and Liza Mientus, minority professional staff members.

Mr. MCINTOSH. The Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs is called to order. I have previously asked Mr. Peterson and told him we would like to dispense with opening statements until we have heard the views of the working Americans and distinguished economists who have been invited to testify today and, of course, members may use portions of their questions to make any statements they may see appropriate.

If our first witness, Professor Neumark, would please rise.

[Witness sworn.]

Mr. MCINTOSH. Thank you, Professor Neumark, and let the record show the witness answered in the affirmative.

Now, our first witness today is one of the leading experts on economic and social effects of the minimum wage increase. David Neumark is a professor of economics at Michigan State University.

Professor Neumark, I understand you previously testified before Congress, that you are a lifelong Democrat, and you have never voted for a Republican. Frankly, I think this issue should transcend party politics. What we have done today is invited Prof. David Card to testify about the New Jersey study that is often cited as a reason that minimum wage increases will not cause losses in employment. Professor Card has declined to come, but I look forward to your testimony today, Professor Neumark, with regard to that study and also with regard to some of your path-breaking research on the effects of minimum wage on teenage un-

employment and teenage dropout rates. Thank you very much for coming and please proceed with your testimony.

STATEMENT OF DAVID NEUMARK, PROFESSOR OF ECONOMICS, MICHIGAN STATE UNIVERSITY

Mr. NEUMARK. Thank you, Mr. Chairman. I would like to have my written statement entered into the record.

Mr. MCINTOSH. Without objection it will be done.

Mr. NEUMARK. I have been engaged with research on minimum wages, in collaboration with William Wascher of the Federal Reserve Board, for the past 6 years. Our research covers numerous topics on the effects of minimum wages. I thank the committee for inviting me today to hear a brief overview of the findings of this research. I will divide my comments into three broad areas, each of which is pertinent to assessing the likely effects of the proposed minimum wage increase, and to judging the research that is used by proponents of that increase.

The general employment effects of a minimum wage increase. In our first paper on this topic, we used observations on the 50 States and Washington, DC, over the period 1973 to 1989, to estimate minimum wage effects on the employment rate of young workers, aged 16–24. We concluded from the evidence in this study and subsequent work that the elasticity of employment with respect to the minimum wage is in the range of -0.1 to -0.2. To translate, these estimates imply that a 10-percent increase in the minimum wage reduces the employment rate of young workers by 1 or 2 percent. Given that the proposed increase is on the order of 20 percent, our results therefore predict an employment decline of 2 to 4 percent among young workers.

As reported in my testimony to the Joint Economic Committee last year, these estimated effects imply that the proposed minimum wage increase would result in an employment reduction of about 400,000 young workers. Because nominal wages have risen since those estimates were reported, I now prefer a more conservative estimate of an overall decline of 100,000 to 200,000 jobs among young workers, although predictions of a larger decline are also reasonable.

I want to emphasize what these predictions do and do not mean. The fact that employment declines when the minimum wage goes up does not necessarily imply that raising the minimum wage is foolish policy. It does necessarily imply, however, that there is a tradeoff, in contrast to the assertions of some economists and policymakers advocating a minimum wage increase, who argue that minimum wage increases do not decrease employment. The real question, in my opinion, is whether minimum wage increases are the best tool to attempt to reduce poverty.

In my opinion, minimum wage increases are a relatively ineffective tool. First, as a result of minimum wage increases, some low-wage workers lose their jobs.

Second, the minimum wage does not effectively target individuals in poor families, as the daughter of an affluent lawyer is covered by the same law as a single mother raising children. My preference is to increase the generosity of the earned income tax credit,

which does not tax labor, and hence does not reduce employment, and which targets poor families specifically.

Minimum wage effects on school enrollment: Our subsequent research went beyond the analysis of simple employment effects. The evidence in this research indicates that minimum wage effects on teenagers are more complex than simply a reduction in the number of employed teenagers. In particular, as economic theory would suggest, minimum wage increases lead employers to substitute away from the lowest skilled labor whose price increases when the minimum wage goes up, and to substitute toward more skilled labor.

In the labor market for teenagers, this results in two things. First, those teenagers who have already left school—perhaps having dropped out—and are working full time, lose their jobs at a high rate, becoming what we call idle—that is, neither in school nor employed. Second, teenagers who were previously enrolled in school, perhaps working part time, and who are presumably more skilled, now face more attractive labor market opportunities, and are led to leave school and take up full-time work.

Table 2 provides, in the first row, the first column indicates an increase of 11 percent in the proportion of teenagers who go from in school and employed to not in school and employed.

Our most recent research reconsiders the evidence presented by David Card and Alan Krueger in what is certainly the study most frequently cited by proponents of increasing the minimum wage. They studied fast food establishments in New Jersey and Pennsylvania before and after the minimum wage in New Jersey rose from $4.25 to $5.05, and found that, in contrast to most economists' expectations, relative employment rose in New Jersey, rather than falling. However, their data were obtained from a telephone survey that elicited very imprecise measures of employment changes over the period of their study. We have obtained and collected actual payroll data from many of the same restaurants included in their sample, and find strikingly different results.

Using the payroll data leads to the opposite conclusion. The first two rows of table 3 report estimates using the telephone survey data. As the second column indicates, these data imply that minimum wage increases lead to large increases in employment.

Obviously, if this conclusion is correct, then much of the argument against minimum wage increases falls by the wayside. But the last row shows that, using the payroll data, the estimated employment effect is negative, with the magnitude of the effect similar to that in other studies of low-skilled workers.

Not surprisingly, our re-examination of this study has attracted rather vociferous criticism. I do not have time in my statement to delve into the details of this criticism, but I will be happy to do so during your questioning. I will state at this point, however, that in my opinion this criticism has done nothing to undermine our findings that the results of the original New Jersey-Pennsylvania study are driven by highly imprecise data, and that our payroll data indicates that New Jersey's minimum wage increase led to an employment decline in fast food restaurants in that State.

[The prepared statement of Mr. Neumark follows:]

Statement of David Neumark,
Committee on Government Reform and Oversight,
Subcommittee on National Economic Growth, Natural Resources,
and Regulatory Affairs

Tuesday, May 14, 1996

I have been engaged with research on minimum wages, in collaboration with William Wascher of the Federal Reserve Board, for the past six years. Our research covers numerous topics on the effects of minimum wages. I thank the committee for inviting me today to hear a brief overview of the findings of this research. I will divide my comments into three broad areas, each of which is pertinent to assessing the likely effects of the proposed minimum wage increase, and to judging the research that is used by proponents of that increase.

The General Employment Effects of a Minimum Wage Increase

In our first paper on this topic, we used observations on the 50 states and Washington, D.C., over the period 1973 to 1989, to estimate minimum wage effects on the employment rate of young workers (aged 16-24). We concluded from the evidence in this study and subsequent work that the elasticity of employment with respect to the minimum wage is in the range -0.1 to -0.2. To translate, these estimates imply that a ten-percent increase in the minimum wage reduces the employment rate of young workers by one to two percent. Given that the proposed increase is on the order of 20 percent, our results therefore predict an employment decline of two to four percent among young workers.

As reported in my testimony to the Joint Economic Committee on April 5, 1995, these estimated effects imply that the proposed minimum wage increase would result in an employment reduction of about 400,000 young workers. Because nominal wages have risen since those estimates were reported, I now prefer a more conservative estimate of an overall decline of 100,000 to 200,000 jobs among young workers aged 16-24, although predictions of a larger decline are also reasonable.

I want to emphasize what these predictions do and do not mean. The fact that employment declines when the minimum wage goes up does not necessarily imply that raising the minimum wage is foolish policy. It does necessarily imply, however, that there is a tradeoff, in contrast to the assertions of some economists and policy-makers advocating a minimum wage increase, who argue that minimum wage increases do not decrease employment. The real question, in my opinion, is whether minimum wage increases are the best tool to attempt to reduce poverty. In my opinion, minimum wage increases are a relatively ineffective tool. First, as a result of minimum wage increases, some low-wage workers lose their jobs. Second, the minimum wage does not effectively target individuals in poor families, as the daughter of an affluent lawyer is covered by the same law as a single mother raising children. To illustrate this point, 43 percent of workers whose wages were affected by the 1990 increase in the federal minimum wage were in families in the bottom 30 percent of the family income distribution. So from the perspective of reducing poverty by using the minimum wage, the cup is perhaps more than half full, but just barely. My preference is to increase the generosity of the Earned Income Tax Credit, which does not tax labor, and hence does not reduce employment, and which targets poor families specifically.

Minimum Wage Effects on School Enrollment

Our subsequent research went beyond the analysis of simple employment effects. The evidence in this research indicates that minimum wage effects on teenagers are more complex than simply a reduction in the number of employed teenagers. In particular, as economic theory would suggest, minimum wage increases lead employers to substitute away from the lowest-skilled labor whose price increases when the minimum wage goes up, and to substitute towards more-skilled labor. In the labor market for teenagers, this results in two things. First, those teenagers who have already left school (perhaps having dropped out) and are working full-time, lose their jobs at a high rate, becoming what we call "idle" (that is, neither in school nor employed). Second, teenagers who were previously enrolled in school, perhaps working part-time, and who are presumably more-skilled, now face more attractive labor market opportunities, and are led to leave school and take up full-time work.

An overview of this evidence is provided in Table 1. The second column, for example, shows that a 21-percent increase in the minimum wage (from $4.25 to $5.15) causes a ten-percent reduction in the proportion of teenagers in school and employed (most of whom work part-time). At the same time, the fourth column shows a 17-percent increase in the proportion who are neither in school nor employed.

Table 2 provides more details on how these changes occur. In the first row, the first column indicates an increase of 11 percent in the proportion of teenagers who go from in school and employed to not in school and employed; these are the more-skilled teenagers who leave school to take up full-time work. The second column indicates an increase of 17 percent in the proportion going from not in school and employed to idle; these are the lowest-skilled teenagers who are displaced from their jobs as a result of minimum wage increases.

The remaining rows of the table indicate that this latter type of displacement occurs among those whom we might expect either to have the lowest skills, or to be perceived as such by employers. In particular, the increase in the proportion idle is much sharper among minority teenagers, and among those who initially earned below the new minimum wage. Results like these are the basis for the frequent assertion that minimum wage increases may hurt precisely the workers whom they are most intended to help.

The New Jersey-Pennsylvania Study

Our most recent research reconsiders the evidence presented by David Card and Alan Krueger in what is certainly the study most frequently cited by proponents of increasing the minimum wage. They studied fast-food establishments in New Jersey and Pennsylvania before and after the minimum wage in New Jersey rose from $4.25 to $5.05, and found that, in contrast to most economists' expectations, relative employment rose in New Jersey, rather than falling. However, their data were obtained from a telephone survey that elicited very imprecise measures of employment changes over the period of their study. We have obtained and collected actual payroll data from many of the same restaurants included in their sample, and find strikingly different results.

First, as indicated in Figure 1 (which displays the data for Pennsylvania), the payroll data appear to be much more accurate. The final graph in the first row displays the employment changes in the data from the telephone survey, whereas the final graph data in the second row displays the employment changes in our payroll data. The much higher variability in the telephone-survey data is apparent. Figure 2 displays a similar result for New Jersey

Second, using the payroll data leads to the opposite conclusion. The first two rows of Table 3 report estimates using the telephone survey data. As the second column indicates, these data imply that minimum wage increases lead to large increases in employment, obviously, if this conclusion is correct, then much of the argument against minimum wage increases falls by the wayside. But the last row shows that, using the payroll data, the estimated employment effect is negative, with the magnitude of the effect similar to that in other studies of low-skilled workers.

Not surprisingly, our reexamination of this study has attracted rather vociferous criticism. I do not have time in my statement to delve into the details of this criticism, but I will be happy to do so during your questioning. I will state at this point, however, that in my opinion this criticism has done nothing to undermine our findings that the results of the original New Jersey-Pennsylvania study are driven by highly imprecise data, and that our payroll data indicate that New Jersey's minimum wage increase led to an employment decline in fast-food restaurants in that state.

Finally, I should emphasize that, whatever one's conclusion regarding who is right in the debate regarding this study, that conclusion should not have great bearing on your opinion regarding minimum wage increases. The reason, quite simply, is that economic theory does not predict that a general minimum wage increase will necessarily reduce employment in one narrowly-defined industry. To take a simple example, suppose that in a small town there is a McDonald's outlet and a small diner. If the minimum wage does more to increase labor costs at the diner (perhaps because the diner uses less machinery to produce its food, or more low-wage labor), then the diner may have to raise prices substantially more than the McDonald's, and may even shut down. In either case, demand for food at the McDonald's restaurant can then increase, leading to an employment increase at that restaurant.

Thus, I would urge you to interpret our study as raising serious questions about the original New Jersey-Pennsylvania study, but not as providing decisive evidence on the disemployment effects of minimum wages. In my opinion, our other research is much more informative on this issue, as well as some of the other potentially harmful effects of minimum wage increases.

Table 1: Estimates of Minimum Wage Effects on Employment and Enrollment Activities, Teenagers

	In school/ not employed (1)	In school/ employed (2)	Not in school/ employed (3)	Not in school/ not employed (4)
Mean proportion in category	0.45	0.21	0.23	0.12
Effect of 21% increase in minimum on proportion in category	-0.006 (-1%)	-0.02** (-10%)	0.01 (+4%)	0.02** (+17%)

Source: Neumark and Wascher, 1995, "The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys," forthcoming in Research in Labor Economics. Neumark and Wascher, 1995, "Minimum-Wage Effects on School and Work Transitions of Teenagers," American Economic Review Papers and Proceedings.

'**' denotes that effect or elasticity is based on estimates significant at the five-percent level. '*' denotes significant at the ten-percent level. Elasticities are evaluated at sample means.

Table 2: Estimates of Minimum Wage Effects on Employment and Enrollment Transitions, Teenagers

	In school/employed to not in school/employed (1)	Not in school/employed, to not in school/not employed (2)
Effect of 21% increase in minimum on proportion making transition		
All teenagers	0.03* (+11%)	0.02** (+17%)
Non-blacks, non-Hispanics	0.03* (+11%)	0.01
Blacks and Hispanics	0.02	0.04** (+25%)
Initial wage at or above new minimum	0.04 (+14%)	0.01
Initial wage below new minimum	-0.01	0.04* (+30%)

Source: Neumark and Wascher, 1995, "The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys," forthcoming in Research in Labor Economics.

Figure 1--Comparing the Two Data Sets, Pennsylvania

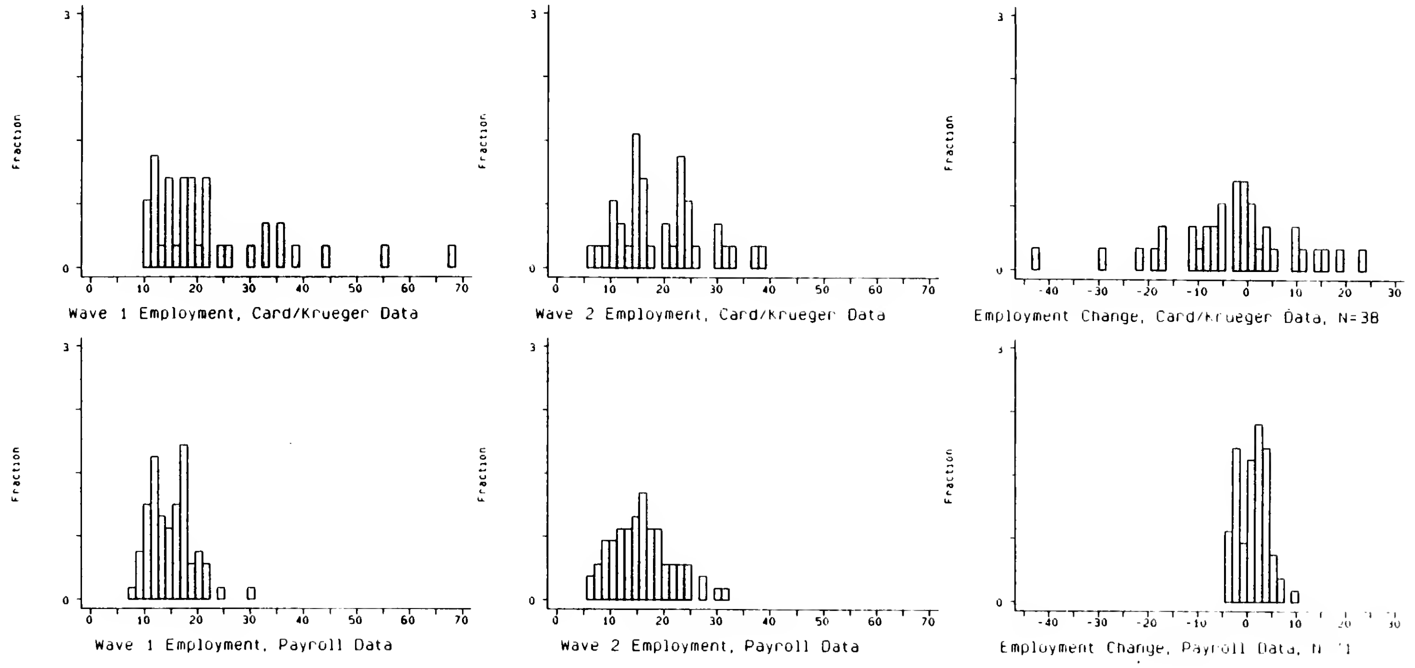

Figure 2--Comparing the Two Data Sets, New Jersey

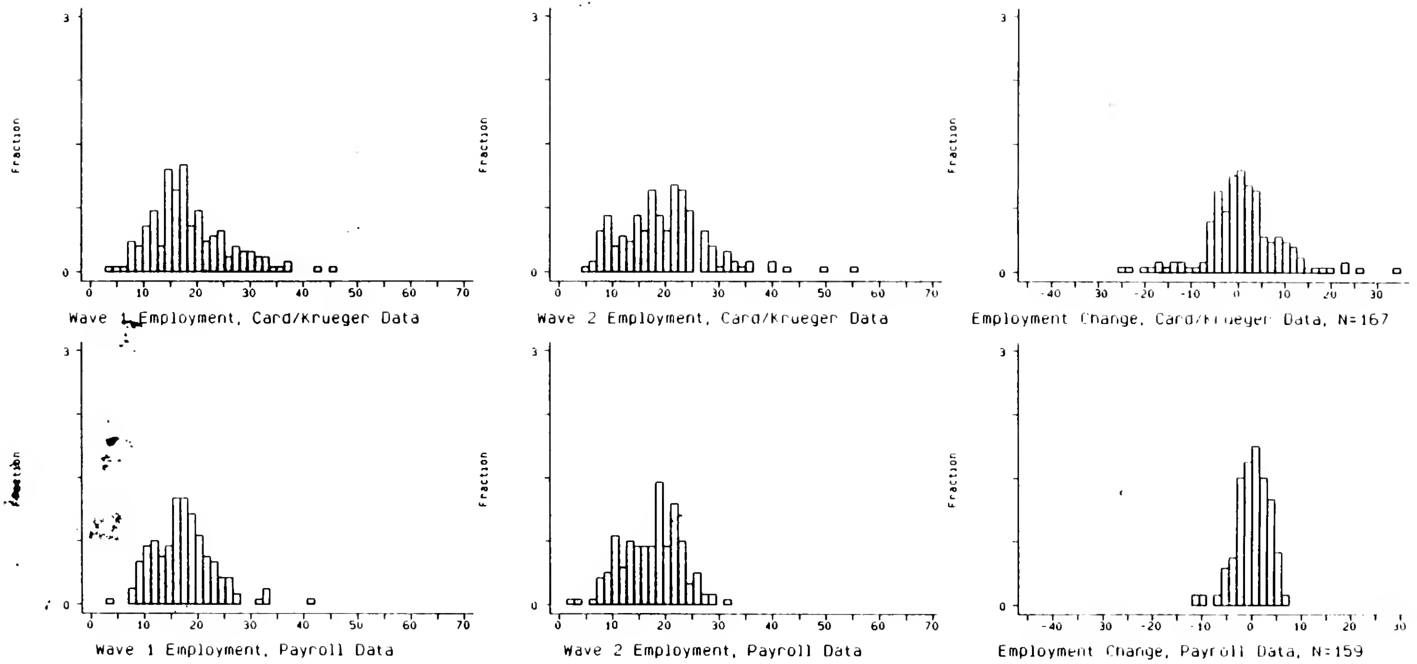

Table 3: Card/Krueger Data vs. Payroll Data, Estimates of Minimum Wage Effects on Non-Management Employment, Fast Food Restaurants in New Jersey and Pennsylvania

	Estimate of minimum wage effect on relative employment in New Jersey:				
	Regression	Implied elasticity	Percentage effect	N	Adj.-R^2
	(1)	(2)	(3)	(4)	(5)
Card/Krueger data:	3.15 (1.27)	0.90	16.9%	325	0.016
Card/Krueger data, sampled zip code areas:	3.55 (1.80)	0.98	18.4%	205	0.039
Payroll data, using averages of payroll records:	-0.76 (0.34)	-0.24	-4.6%	230	0.483

Source: Neumark and Wascher, 1996, "The Effect of New Jersey's Minimum Wage Increase on Fast-Food Employment: A Re-Evaluation Using Payroll Records."

Mr. MCINTOSH. Thank you very much, Professor Neumark, and I appreciate you coming this early in the morning at the beginning of the hearing, and I understand you have a plane to catch later in the day.

Let me ask you a couple of questions about the data that you presented. One of the things that you mentioned was that you earlier predicted job loss of more than 400,000. Now with the increase in the marketplace of wages, it could be 100,000 to 200,000 young people. Have you seen any data that indicates the parallel effects among seniors or other members of the population? Is there a factor that we could multiply those numbers by to get a rough estimate of the total job loss in society, or is that type of data not available?

Mr. NEUMARK. We certainly have data on the number of workers outside of this group of younger workers who are at or near the minimum wage. There have not been studies which have addressed their employment effects, in large part because there tends to be relatively few of them. It is guesswork as to what the employment effects would be, but slightly over half of minimum wage workers are in this group we studied. If you felt comfortable extrapolating the effect we estimate for young workers, then you would roughly double the effects. But I would not want to push that position without more formal research on the question.

Mr. MCINTOSH. But as a rough estimate in terms of thinking about it in the magnitude that we could increase it by 50 to 100 percent and have an idea in our minds of how many jobs may be at stake in this debate.

Mr. NEUMARK. I don't think it is out of line to assume that employment effects among those workers would be similar.

Mr. MCINTOSH. I think that is important because the real question that comes before us as we debate whether to increase the minimum wage is not whether we want to increase the economic benefits to people who are at the lowest ends of our economic scale, but what are we doing for those individuals and what are the negative effects of that type of regulation. And the most obvious negative effect is that many entry level positions would be eliminated and cause significant problems for people who are just starting out in careers, teenagers or searching for a job in order to go off of public assistance and enter into the work force, so I think that is very, very important for us to focus on.

Another point that came to mind as you were presenting your statistics about teenagers, you mentioned that there was an 11-percent increase in all teenagers who were in school switching to not in school and full-time employed, and those are the relatively skilled teenagers, and there was a 17-percent increase in those already out of school, the people who have dropped out of public school, going from the category of employed to not employed.

The interesting thing was you also broke it down in your chart and indicated that the strongest benefit of skilled workers go to nonblacks and non-Hispanics. I take it generally predominantly white teenagers went up 11 percent and that the strongest negative effect for people who have dropped out of school and go from being employed to unemployed was among blacks and Hispanics. There was a 25-percent increase in unemployment in that category.

So it strikes me the combined effect there is to have a shift away from blacks and Hispanics to nonblacks and non-Hispanics in terms of the types of jobs that will be available and the demand for their skills in the marketplace. Am I reading your statistics correctly in that?

Mr. NEUMARK. Yes, let me correct one point that comes up frequently in the media and elsewhere. We typically don't talk about minimum wage increasing unemployment because unemployment also has to do with whether you are looking for employment. We talk about employment and nonemployment.

The point of this research on teenagers, and these shifts in and out of school is, again, that a minimum wage increase does exactly what you would expect. It seems in the data that is to encourage employers to substitute away from the least skilled workers because their price has gone up, and toward other workers. In the market, whether it is because of employer perceptions or lower productivity for minorities or true lower productivity, for whatever reason it appears as employers shifting away from minorities and toward white teenagers.

The other thing you see in that table, which reflects in some sense the same thing, is that the increase in the proportion going from employed to idle, as we call it, is concentrated nearly exclusively among those who are earning below the new minimum wage—the lowest wage workers—again, as you would expect. And those teenagers who are drawn from school, who are typically in school combined with part-time work, tend to be higher wage workers. Their wage is not increased because of the minimum wage. It is reflecting the same type of behavior.

Mr. MCINTOSH. Thank you. I appreciate that. So it is very clear that some of the least advantageous groups in our societies are the most harmed by this effort, which is well-intended in its onset.

My time period for the initial questioning has lapsed, but I have a few more questions. We will have a second round.

Let me turn now to the ranking member of our subcommittee, my colleague from Minnesota, Representative Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. I have another hearing going on. I have to shuttle back and forth. If I am not here, I apologize. Every time we have a committee hearing here, they schedule one in my other committee at the same time.

After reading some of this stuff, it is hard to know who to believe. I just came from a meeting this morning of some people in the meat processing industry who are working on meat inspection in another one of my subcommittees and they were telling me that Minneapolis, which is not in my district, that the fast food restaurants are advertising in Minneapolis $7 an hour. Is that——

Mr. NEUMARK. I live in a lower priced town and the fast food restaurants are advertising $5.50 to $6. There are certainly employers of relatively low-wage labor who are paying more than the minimum. Fast food restaurants are not the lowest wage employer in the labor market. They are obviously a visible low-wage employer, but they are not the lowest wage employer.

Mr. PETERSON. Is that what you studied? You studied the fast food restaurants; is that what I understood?

Mr. NEUMARK. We re-examined the New Jersey-Pennsylvania study, which was a study of fast food restaurants in those labor markets. In that period it does appear that there were many workers for whom at least the starting wage was below the new minimum. Those wages were increased when the minimum wage went up.

That is an important question to ask.

If we raise the minimum in a range where no one is earning it, then it will have no effect. In a market like Minneapolis, at least in the fast food industry, if, in fact, they are paying $7 to start, we wouldn't expect any effect. But in the lower wage areas in the country and in lower wage industries we might.

Mr. PETERSON. I was kind of wondering a couple of things. One, this study really just focused on the fast food restaurants.

Mr. NEUMARK. The Card-Kreuger study was a study of the fast food restaurants.

Mr. PETERSON. In that area, the fast food restaurants start people out at minimum wage?

Mr. NEUMARK. They initially did their survey before the minimum wage in New Jersey went up, and there were many workers in both Pennsylvania and New Jersey who were at the minimum. Then, when the minimum went up in New Jersey, the wage distribution did, in fact, appear to shift so the minimum wage really did something to the wage distribution in that case.

Mr. PETERSON. What period of time was this?

Mr. NEUMARK. The survey was done in 1992. The minimum wage went up, I believe, in April 1992.

Mr. PETERSON. It was right after that change. Went up, it went from what to what?

Mr. NEUMARK. The minimum wage in New Jersey went from $4.25 to $5.05 and Pennsylvania stayed at $4.25.

Mr. PETERSON. My—I don't know. In my district, I am more concerned about some of this small mom-and-pop-type restaurants and resort-type businesses. I think they are the ones that are going to be more vulnerable to this type of situation than maybe the fast food franchise-type deals. Does anybody look at those kinds of businesses?

Mr. NEUMARK. There haven't been many studies that looked at specific industries. Most studies that I have done and that the other witnesses and other researchers have done typically focus on all young workers in a country or in a particular State. The reason is because studying a particular industry is not something that really provides a very good test.

The example you give is a good one. If we have a McDonald's and a mom-and-pop diner on opposite corners and the minimum wage goes up, it is more likely that the diner is going to be much more affected by that than the McDonald's. They may have more low-wage labor than McDonald's. They may have less capital used to produce their food, and used to produce the services in the restaurant. They might raise prices or in the worst case scenario shut down, and demand at the McDonald's even goes up. That is even possible.

That is why I often emphasize that whatever your conclusion on who is right about this New Jersey-Pennsylvania minimum wage

study, it simply shouldn't be taken as decisive evidence in this debate. The study of a very narrowly defined industry is not a very compelling study because anything can happen to one industry even if employment declines across the board.

Mr. PETERSON. Did I hear you say you think a better solution is to raise the earned income tax credit?

Mr. NEUMARK. Yes.

Mr. PETERSON. I am not a big fan of that program and there has been some discussion here during the budget debate where they were talking about changing the earned income tax credit. Have you followed that at all?

Mr. NEUMARK. Not as closely as the minimum wage research.

Mr. PETERSON. What do you think should be done? Do you have a specific proposal what should be done with the earned income tax credit, how you pay for it?

Mr. NEUMARK. It is a budget item. I understand that, politically, a minimum wage is obviously easier to sell than an earned income tax credit in an era of budget cutting. That is certainly true. An earned income tax credit has some cost. It does reduce labor supply of some workers, but the evidence seems to suggest that those effects are minimal, and that it encourages participation of those who otherwise wouldn't be working. It does show up as an expense in the budget. That is unavoidable.

Mr. PETERSON. Can I just finish up with one?

Mr. MCINTOSH. Certainly.

Mr. PETERSON. Has any study ever been done on the earned income tax credit? What I know about this is when I did tax returns and I actually saw what happened to people. First of all, most people didn't know about it and would be shocked to find out they were going to get all of this money at the end of the year. They thought it was kind of crazy.

Mr. NEUMARK. The IRS is required to check returns and pay the earned income tax credit even if a filer does not check it.

Mr. PETERSON. I understand, but I mean my question is once people did find out about it they have kind of a cliff effect in there and there is a range, if you hit your employment in that range, then you will get the maximum amount.

What happened in a lot of cases people would stop working when they hit that amount because they would get more money, you know, if they kept their income. Then you had self-employed people, farmers and so forth, that would try to target their income so they would get the maximum amount out of the earned income. First of all, people that knew about it, when they found out about it, they'd start to game the system. I am not sure that is the solution to this.

Mr. NEUMARK. Economists certainly expect that people to some extent would reduce their hours of work when the maximum credit starts to fall off. It is not that they would make more money that way, but the incremental wage they would get gets pretty low because it starts to get taxed at a high rate. It is like any Government program. You will always be able to find egregious cases of fraud.

One advantage of it is it is done through the tax system. We have an organization—the IRS—which presumably is pretty good

at figuring out who is declaring their income correctly and who isn't, not to say that there aren't mistakes made. And it is certainly not the case that all the mistakes are among the low-income population. It is not a perfect program, that is certainly the case.

The reason I refer to it in this particular context is because it is targeted—it is based on family income. It targets workers in poor families. The minimum wage we know is a very blunt instrument. Many minimum wage workers are not in poor families.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. MCINTOSH. Thank you, Mr. Peterson, for joining us. Let me turn now to the chairman of the full committee, Mr. Clinger from Pennsylvania.

Mr. CLINGER. Thank you very much, Mr. Chairman. I, first of all, want to commend you on holding this hearing. I think this hearing, which is a balanced hearing, is going to contribute a great deal to this debate on a highly emotionally charged issue and hopefully clear away some of the fog that has enveloped it over the political rhetoric that we have heard in recent months about it. So, I really am delighted, that we are having this hearing today, and I think the distinguished panels we are going to hear from will do a great deal to, at least, clarify the pluses and minuses and pros and cons, if you will, of the minimum wage.

I was interested, Dr. Neumark, and I think we all start with the premise that all of us are interested in doing what is going to be really helpful to the least fortunate in our society to ensure that they are not operating below the standard living—a reasonable standard of living and that, of course, is the bottom line of this debate. How do we do that? You have suggested that the minimum wage is not the most efficacious way to do that. Perhaps the earned income tax is the way to do it.

I think what I was really struck by is given the same study how we could come up with such divergent interpretations of that study, and you indicated that your review of that has been subject to a great deal of criticism. Would you care to expound on that a little bit of how that divergence—how you would reconcile that divergence?

Mr. NEUMARK. The Card and Kreuger data were collected from a telephone survey. A surveyor called up each restaurant and asked effectively—I don't have the quote in front of me—How many employees do you have in this restaurant? The problem with that question I think in retrospect, and I don't think they would really disagree, is it is very imprecise. It could be anywhere from a head count of the number of people on the current shift to the number of people on the monthly payroll which, in a restaurant with a lot of part-time workers, could be 40 or 50 people.

Then they come back 8 months later and asked the same question, not necessarily of the same person—with no effort to get the same person on the phone so, at least, however they chose to answer the question might be consistent. What you see as a result is rather wild changes in employment in these restaurants.

You find many restaurants where the number of employees went up by 20 or 30 or went down by 20 or 30. Most of us have been to fast food restaurants. That doesn't seem to record what really

happens in those restaurants. The variance in employment over time seems rather small.

We collected initially, in consultation with a group who clearly has a stake in the debate, the Employment Policy Institute, data from the same fast food restaurants or, at least, the restaurants in the same ZIP Code area from which Card and Kreuger got their data, and asked them to supply their actual payroll records. We subsequently took off on our own and collected a lot more such data.

We ended up with the same study. We didn't try to do anything different from what Card and Kreuger did, but the data set was completely different. Our data were based on the payroll records that employers keep for UI purposes, IRS purposes and the like, and I think therefore they are much more accurate.

So what seems to be the case is that there is excessive noise in their data. The variance of employment changes in our data is one-third what it is in their data, and the noise seems to be so great that you actually get misleading results from the data. So it is not two interpretations of the same set of results.

Mr. CLINGER. I understand. Do you have any other suggestions other than you indicated that the minimum wage is really an imprecise way to go about dealing with that lower income level, because, in fact, the minimum wage is indiscriminate in terms of who it is going to be applied to. It doesn't go to just the less fortunate. It goes to middle-class teenagers as well. Is that not true? In other words, it is not at all selective or focused.

Mr. NEUMARK. It is not at all selective. If you made it selective by only having a higher minimum for the most disadvantaged workers, that would be even worse because then really nobody would hire them.

Mr. CLINGER. Whereas the earned income tax credit is a more focused, more laserlike, if you will, way to approach this problem.

Mr. NEUMARK. Yes, it is, and there are other things we could do which are perhaps more complex.

Mr. CLINGER. That is what I was going to get to next.

Mr. NEUMARK. What we would ultimately like is for workers to be sufficiently high skilled to earn a high wage in a market without a minimum wage. That would give them a decent standard of living. This is a question of schools, training, and all sort of questions. I am not an expert on those. There are people who are much more noted experts on what the possible remedies are.

Mr. CLINGER. Thank you very much, doctor. Thank you, Mr. Chairman, for holding this hearing again.

Mr. MCINTOSH. Thank you, Chairman Clinger, for joining us today. Let me turn now to my colleague from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. I thank you also for holding this hearing. I am neither an economist nor a student of history, but I am interested in both, and I think this hearing and this testimony is particularly important.

Let me, first of all, establish, Professor Neumark, I believe I am correct in this. You are not a Republican shill are you?

Mr. NEUMARK. No.

Mr. GUTKNECHT. Can you tell us a little bit about your politics?

Mr. NEUMARK. I have always been a Democrat. I said in my statement that, in my opinion, the question is what is the best way to reduce poverty. I take that as an important goal and I have no objection to Government meddling in that process as long as they do it effectively.

Mr. GUTKNECHT. I wanted to make sure that I'm correct in that. And I think the whole idea—and help me, I may be wrong in this—I think the first government to try to artificially set wages and prices was a Middle Eastern King by the name of Hammurabi; am I right on that?

Mr. NEUMARK. I am not enough of a student of history to know the answer to that question either.

Mr. GUTKNECHT. I am particularly interested, though, in studies—are you familiar with some studies done by a gentleman by the name of Masarami Hashimoto and Leon Phillips? Are you familiar with either of those?

Mr. NEUMARK. The first, yes; the second, no.

Mr. GUTKNECHT. Can you tell us a little bit about those studies?

Mr. NEUMARK. If I am thinking of the one you are thinking of, Hashimoto did a study, which is an interesting question and one that is perfectly consistent with economic theory. The notion is that workers get training in schools and elsewhere, but they also get training in the workplace. What we think happens, and there was a lot of evidence. In fact, this does that. Employers will initially pay a low wage to workers while those workers are acquiring skills, and those wages will rise over time as the skills are acquired.

Hashimoto's prediction based on the theory was that a minimum wage increase will in some sense deter training. If, when I am training a worker that worker really isn't worth much to me because they really aren't producing much—they are spending most of their time training—I may only hire them if I can pay them a very low wage. If the minimum wage imposes a floor below which I can go, I may choose not to train that worker. It may no longer be worthwhile to train that worker.

I think this is evidence that really ought to be reassessed in light of more recent data which suggests that to some extent that happened. It is not direct evidence, but there is evidence consistent with less training of workers when the minimum wage goes up.

Mr. GUTKNECHT. You have also come to the conclusion with your studies that an increase in the minimum wage increases the number of high school dropouts. Have you been able to quantify that? There is an enormous social cost for kids dropping out of high school. I also serve on the Washington, DC, Oversight Subcommittee. One of the biggest problems we have is high school dropouts, kids not staying in school and getting the education and ultimately becoming much less employable.

Can you talk a little bit about the impact or have you done any studies that quantify the cost of kids dropping out of school?

Mr. NEUMARK. The answer to the last question is, no. First of all, we are probably seeing some dropping out behavior. I showed you the slide that said you get the shift of the teenagers from not in school, unemployed, to not in school, not employed. Some of these we think are dropping out. That is always hard to tell because all we really know is that 16- to 19-year-olds in a State where the

minimum wage goes up are more likely to be in that State. It is maybe that they chose not to continue beyond the 12th grade. I suspect some of it is dropping out.

It is a big percentage increase. The number I think on the slide was a 17-percent increase. That is a big percentage increase over a small base. That is a percentage increase by about 2 percentage points in the proportion of teens——

Mr. GUTKNECHT. Above the total population of teens.

Mr. NEUMARK. The total population of teenagers. It is not a massive increase in the number of people, though it is a big percentage increase. I think your question is a very good one: Is this, in fact, related to other social ills? It is not something I have studied. It is something I would like to study. It is not something other people have picked up on yet, although I have been asked the question before.

Mr. GUTKNECHT. One of the other conclusions I am not sure you have drawn, or other economists have drawn, that if more kids drop out of school you have a bigger problem with crime.

Mr. NEUMARK. It certainly seems reasonable.

Mr. GUTKNECHT. I want to thank you for coming today and thank the chairman for holding this hearing. Thank you.

Mr. MCINTOSH. Thank you very much, Mr. Gutknecht.

Let my turn now to our colleague from Arizona, also a freshman, Mr. John Shadegg.

Mr. SHADEGG. Thank you, Mr. Chairman. Dr. Neumark, first of all, let me thank you for taking the time to come here and giving us your learned advice. It looks to me like you have studied this subject for quite a while.

I listened to your testimony about the Card-Kreuger study, which I found to be very persuasive, with regard to the mistakes that may have been made in the gathering of that data, then the data that you gathered which suggests it is wrong.

Let me ask you a different question: Even if, in fact, you had not gone back and redone, so to speak, the Card-Kreuger study, that study would have, in fact, reached an aberrational conclusion compared to virtually every other study of this issue in the field of economics, would it not?

Mr. NEUMARK. Virtually every other study, if you look over the historical record, but there clearly have been a number of studies. I think David Card's name has been on most of those in the last 3 or 4 years which have found no effects of minimum wage increases.

The New Jersey-Pennsylvania study was unique in suggesting that minimum wage actually increased employment. There are other studies suggesting no effect. I think there is good reason to expect that to happen in some studies. If you take a labor market, as we were discussing before, market wages are quite high. Raising the minimum will have virtually no effect.

Our other witnesses, I imagine, will discuss some of their research suggesting that it is going to be very hard in many labor markets to detect an effect of the minimum wage increase because of properties of the data. Most of the studies in the past and the preponderance of the recent studies have found negative minimum wage effects.

Mr. SHADEGG. Did I hear you say that almost all of the studies that reach the opposite conclusion involve Mr. Card? Is that what you just said?

Mr. NEUMARK. I would say the majority of them. I don't know the exact count. I haven't counted the recent ones, but I think that is accurate.

Mr. SHADEGG. Fair enough. Your bottom line is what could this Congress do to deal with the issue of poverty and how could we best help those in need in this country. I take it that is the approach you come at this issue from?

Mr. NEUMARK. Yes.

Ms. SHADEGG. And it is clear to you that the minimum wage is not the answer to that?

Mr. NEUMARK. Yes.

Mr. SHADEGG. Have you done other studies in the welfare arena in terms of were we to raise the minimum wage and if it had what most economists anticipate is a negative impact on employment both of young people and perhaps of others, have you done studies to indicate or are you aware of studies that indicate what would happen with regard to the burden imposed on the otherwise existing welfare system?

Mr. NEUMARK. I have not studied the question. The only study I am aware of that addresses that question is slightly different from what you are asking, but related. That is a study by Peter Brandon, and again, it is not published yet nor is my Pennsylvania-New Jersey study, so these things are subject to review and changes. But that study claims that when you raise the minimum wage, it takes individuals, particularly women, longer to get off of welfare, which is a perfectly reasonable expectation. These are people who are very low skilled.

We think entry-level jobs disappear when the minimum wage goes up, therefore it ought to be harder for them to find jobs. Again that is one study. It is not a question that has been studied extensively. I suspect it will be over the next few years. It has been very much the focus of debate lately.

Mr. SHADEGG. Well, certainly if we go ahead and enact a minimum wage, and it knocks people off of the employment rolls and into the welfare system, there will be a data base to study. Are you aware of any other impacts that you could anticipate on the welfare system, on the earned income tax system, on others that you could anticipate in an increase in the minimum wage?

Mr. NEUMARK. It is hard to say. This recalls the question that was asked earlier as to what happens with respect to other workers. To the extent we are focusing on teenagers, there probably aren't big effects. A lot of those teenagers aren't going to have unemployment benefits, and aren't going to enter the welfare system. Once we start getting to older workers and, of course, women with children, those become more real possibilities.

I think, again, as I emphasize, that the minimum wage is a tradeoff. Some workers make more, some workers lose their jobs. It is probably a small number that lose their jobs, nonetheless for them it is a pretty serious event. Some smaller fraction of them will perhaps draw welfare benefits or unemployment insurance or some other form of compensation. I tend not to lean on that as my

principal argument against a minimum wage increase partly because I suspect that these are not big effects, but more importantly I just don't know how big the effects are.

Mr. SHADEGG. What about the issue of the impact of those teenagers who do lose their jobs with regard to, for example, crime? Are you aware of studies in that arena?

Mr. NEUMARK. Again, that was asked earlier. There were some earlier studies from the 1970's or early 1980's that attempted to study the relationship between crime and youth labor markets and minimum wages. Again, there are people who are far more expert in this than I am. The study of crime statistics is a very complicated endeavor in and of itself. There are some people out there who would claim a worse youth labor market is likely to lead to more crime. It certainly follows from theory, but I wouldn't claim to be an expert on that evidence.

Mr. SHADEGG. No doubt you explained that earlier. Precisely how is it or what is that you would recommend this Congress do with regard to the earned income tax credit to, in fact, do what it could for those who are in need of help in this economy more than any others?

Mr. NEUMARK. One could increase the generosity in a number of ways. One has the marginal rate at which you increase earnings initially. One has the maximum benefit and the period for which you get it—the earnings max at which you can get it as well as the phaseout rate. There is research by Sol Hoffman and others which tries to calculate the relative costs of those various ways of doing it.

My reading of it is, it doesn't matter a heck of a lot. Obviously, the more generous you make it the more it will cost. But it seems to me, given the benefits and given the potential policies out there, this is one we can point to that really puts more income in the hands of poor families.

Mr. SHADEGG. Significantly better than an increase in the minimum wage.

Mr. NEUMARK. I think so. One thing to keep in mind is that the earned income tax credit currently is very small. The maximum level of earnings is quite low and we really don't have good experience at asking what would happen if we make it a lot more generous. I think one should always be cautious in saying we should double or triple the amount of income one could get off of this. But it seems like incremental changes are unlikely to be very costly.

Mr. SHADEGG. Thank you very much.

Mr. MCINTOSH. Thank you, Mr. Shadegg. And now for a round of questioning, our colleague from Florida, Mr. Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman. I appreciate the hearing and appreciate you being here today, whether you are a Republican shill or not. Let me ask you very quickly, first of all, I want to make a comment regarding Mr. Card. From my understanding, Mr. Chairman, he was invited today; am I correct?

Mr. MCINTOSH. That is correct. He was invited to join us on the first panel.

Mr. SCARBOROUGH. From my understanding, despite all of these studies, he has not made any recommendations of actually raising the minimum wage despite the Democrats are using his work to

suggest that. Have you ever heard of Mr. Card making such suggestions, such conclusions?

Mr. NEUMARK. No; I haven't. I think one could read the book and find certainly strong statements that minimum wages don't reduce employment, but he has not come out, to my knowledge, and made strong policy suggestions.

Mr. SCARBOROUGH. Let me ask you a real quick question. I think I heard you say that you had concluded that possibly raising the minimum wage might not cause a great loss of jobs. You are not really sure; is that correct.

Mr. NEUMARK. Yes. It is important to keep in mind what exactly is going on here. Let's suppose we take my number of 200,000 jobs lost among young workers. People will say, OK, so the minimum wage can go up 20 percent. That number comes from a 1-percent reduction in employment of young workers. That sounds like a phenomenal tradeoff. Twenty percent higher wages, 1 percent of a subgroup of workers lose their jobs.

You have to keep in mind, though, that overstates the tradeoff tremendously for a number of reasons. First of all, only a subset of workers will see their wages go up as a result of the minimum wage increase. You want to use them as the base with which to compare the number of jobs lost.

Second of all, many workers whose wages would rise as a result of the minimum wage increase are not going to get the full 20 percent. Many of them earn far closer to $5.15 than $4.25 at the moment. So the tradeoff is not nearly as good as it is often made out to be when people talk about a 1- to 2-percent loss.

And finally, as my work on teenagers suggests, there are other tradeoffs going on. The net employment effect for teenagers in particular is quite small, but as I showed and as we discussed in greater detail, that hides some relatively important shifts, with the lowest skilled ones being displaced from jobs and higher skilled teenagers moving into those jobs.

Mr. SCARBOROUGH. The study that you were talking about and your conclusions have to do with the 20-percent increase. I am sure you are aware that the 1981 study, the congressional study that the Wall Street Journal cited a couple of weeks ago actually talked citing a 10-percent increase and talked about the possibility of a 1- to 3-percent loss in teenage employment.

If you move that to 1996 numbers, that would be between about 150 and 400,000 jobs. Is that consistent with your past studies or do you take exception with the possibility of possibly a 1- to 3-percent increase in loss of jobs?

Mr. NEUMARK. The research in the early 1980's on which that was based was reviewed, I think, relatively well by Charlie Brown and two other economists. The range of estimates was exactly that—a 10-percent increase in the minimum reduces employment 1 to 3 percent. They lean toward the lower end of the range and I think studies subsequent to that, including my own, have suggested that the lower end of the range was probably a more appropriate estimate.

Mr. SCARBOROUGH. I have another question regarding free trade. Obviously with NAFTA, GATT, and the impact of the minimum wage I am going to ask you to tell me everything about NAFTA in

5 minutes or less. Only reason I ask is because I was at a townhall meeting and somebody brought this point up that actually as we move into an era of free trade, especially with NAFTA, where we are seeing a good number of low-paying American jobs going across the border to Mexico because, obviously, that is the idea, to let Mexico buildup with low-wage jobs and let America eventually create a positive trading partner with Mexico. Doesn't it seem to make fairly good sense if we raise the minimum wage even more we have a good chance of losing even more jobs to Mexico and Third World countries in our attempt to open up trade between ourselves and Third World countries?

Mr. NEUMARK. We have evidence, I think, that jobs are reduced or job growth falls at any rate when the minimum wage goes up. I haven't seen evidence directly linking it to whether those jobs appear elsewhere. I think one thing to keep in mind is the service sector is the lowest wage sector in the economy and those jobs can't go across borders. That isn't to say some jobs can't—some crude data entry jobs, some simple manufacturing jobs, maybe some minimum wage jobs. It is entirely possible.

Mr. SCARBOROUGH. I would like to yield for a moment to the gentleman from Minnesota.

Mr. GUTKNECHT. Thank you, Mr. Scarborough. I have one final question, then I have to run. Have you had a chance to share some of your studies and the information in your statistics and so forth with Secretary Reich or other people in the administration?

Mr. NEUMARK. I assume he has heard of them. Other than that I don't know.

Mr. GUTKNECHT. You haven't been called.

Mr. NEUMARK. No.

Mr. GUTKNECHT. Thank you.

Mr. MCINTOSH. Any other questions?

Mr. SCARBOROUGH. Just a final conclusion. The suggestion by some—and even calling in the study—the suggestion by some that raising the minimum wage would actually increase jobs strikes me as fairly ludicrous and because this issue has been so demagoged, it seems to me we need to break it down to the most general terms possible.

Would it be a safe conclusion to make—again, talking in generalities that somebody is suggesting using—again, I am asking you to look at the weight of evidence, the weight of studies over the past 20, 30 years or so. The conclusion that actually raising the minimum wage would increase jobs is tantamount to the suggestion that smoking cigarettes would reduce cancer. I am asking you again, not your opinion, but just looking at the weight of studies over the past 30, 40 years on this issue.

Mr. NEUMARK. There is only one study that I'm aware of for the United States that finds that. I imagine there is at least one study that suggests that smoking reduces cancer.

Mr. SCARBOROUGH. I am sure the tobacco companies have made more than one study on that.

Mr. NEUMARK. It is interesting. As this debate has evolved over the New Jersey-Pennsylvania study, the original position on that study was that the minimum wage certainly doesn't reduce employ-

ment and may increase it. Certainly, the administration has preferred the latter view to some extent.

Since our study has come out I think the authors have clearly backed away from any claim that the minimum wage has raised employment, and now insist the study says that the minimum wage has no effect on employment. If you look at the paper, it is full of positive effects. There is a significance on that that I am not quite sure where that comes from. I don't think you will get any economists on any side of this debate barring perhaps a couple who will claim that minimum wage will raise employment.

Mr. SCARBOROUGH. Let me say for the record, I am shocked and stunned that there is actually spin control in the academic community also. And with that I will yield back the balance of my time.

Mr. MCINTOSH. Thank you, Mr. Scarborough. I had an additional question on the round that I had made—didn't get a chance to ask and wanted to ask you about the alternative proposal, Professor Neumark.

As you know, this year is an election year, and it looks to me like a lot of the debate, that is going on, is election year posturing. Nineteen ninety-five—we have a sign up here that blows it up in large words here; President Clinton said raising the minimum wage is the wrong way to raise the incomes of low-wage earners. This year, in 1996, he is asking us to raise the minimum wage in Congress.

As you pointed out, facts are stubborn things. The minimum wage has negative consequences for low-income workers. The New York Times, not a bastion of conservative thought certainly, but the Nation's leading newspaper, over the years has editorialized on this issue, and I want to put their editorials into the record for us.

I will read the headlines for you. In 1977, "The Minimally Useful Minimum Wage." Again, in 1987, "The Right Minimum Wage: $0.00." In 1977, "The Cruel Cost of the Minimum Wage." In 1987, again, "Don't Raise the Minimum Wage," urging Congress not to raise it at that point. Then, in 1988, "The Minimum Wage Illusion," talking about the myths of benefiting the lower class income workers. And in 1989 the minimum wage, a distraction. But now, in 1996, an election year, once again the New York Times headlines reads, "Boost the Minimum Wage," urging Congress to take action.

As you pointed out, that action does have harmful effects upon some of the most vulnerable members in our society. It will increase teenage unemployment and increase the dropout rate. It particularly hits blacks and Hispanics. It harms the elderly. It hurts disabled workers who are looking for jobs.

I have been trying to think is there a better way? Can we help people who are working at minimum wage levels to actually increase their take-home pay without costing these jobs? I don't want to ask you to defy the laws of economics, but I wanted to present proposals that I have been floating with my colleagues and see what your thoughts were on this.

Basically, we would take all of the income tax and employment tax that is withheld from a minimum wage-earner's payroll and paid by the employer to the FICA tax, and the income tax withholding amounts to somewhere between 15 and 17 percent on an

average minimum wage-earner's take-home pay. That is to them as after-tax income. Have the employer receive a credit for their amount contributed to the Social Security trust fund so the employee continues to make payments into that trust fund and then make up that revenue loss by reducing welfare and food stamps about 10 percent, which in Indiana means going from about $9 an hour to about down to $8.25 an hour in average benefits.

To me, it looks like the employee wins. Their after-tax take-home pay goes up on average about 1 cent more than if we raised the minimum wage, and the employer doesn't have to lay off anybody or fire anybody or not hire new people because their costs don't go up. Welfare is reduced, thereby increasing the incentive for people who are able to work to leave public assistance and move into the work force.

I wanted to ask your opinion. Should Congress consider this as an alternative and do you think that would be a better way to actually increase take-home pay for people with minimum wage? By the way, we are coupling it with an increase in the earned income tax credit for two-parent families or one-parent families with children, a reform that's been proposed by a colleague of mine, Mr. Hutchinson.

So the proposal would be this minimum wage tax cut plus some changes in the earned income tax to increase income to families who are dependent on a minimum wage. I wanted to ask your opinion if you thought that was a good idea or better idea than raising the minimum wage and any other comments you may have.

[The articles referred to follow:]

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The Cruel Cost of the Minimum Wage

The Democratic Congressional leadership and the President are struggling to design effective job programs. How then can they support new minimum wage legislation that will make it more difficult for unskilled workers to find employment on their own?

Next month the House will vote on an Administration-backed plan to raise the minimum wage from \$2.30 to \$2.65 an hour, with a provision to maintain it in the future at 53 percent of average manufacturing wages. The plan is a compromise, adopted in the face of strong opposition from the President's economic advisers; organized labor pushed hard for \$3.00. Even at \$2.65, though, most economists expect that the new minimum will cost jobs. Those affected will be workers on the lowest rung of the employment ladder—the very young and old, minorities, and the handicapped.

A higher minimum wage, to many, is a simple matter of economic justice. People who work hard 40 hours a week deserve their share of the good life. Yet a full-time job at the prevailing \$2.30 minimum—\$4,600 a year—hardly pays for food and shelter, let alone first-run movies or weekend barbeques. The working poor could indeed use more than they now earn. But to raise incomes by raising the minimum wage means that some would lose their chance to work altogether.

A business hires workers only if their labor produces earnings at least equal to their wages. If the business is compelled to pay \$2.65, it cannot hire those whose work produces less than that. So although a \$2.65 minimum would improve the lot of many who work below that wage today, it would at the same time destroy the jobs of those at the very bottom. Any increase in the minimum wage would be a mistake.

Even those who favor raising the minimum wage are having second thoughts about its impact on teen-agers. Unemployment among the young seeking their first jobs already hovers around 20 percent; black teen-age unemployment is probably closer to 40 percent. A hike to a \$2.65 minimum could eliminate jobs for about 100,000 of the five million 16-to-19-year-olds now in the labor force.

These doleful statistics have led a number of House members to propose exemptions for teen-agers. Illinois Republican John Erlenborn's amendment to set the wage floor for teen-agers at 75 percent of the adult minimum was narrowly defeated in the House Education and Labor Committee. Proponents are expected to try again when the House debates the minimum wage bill next month.

If there must be any increase in the minimum wage at all, at first glance, some form of youth differential does seem attractive. As a group, teen-agers are most adversely affected by minimum wages because a high percentage of them have no skills or experience. But on closer examination, there is no compelling case for a special break for teen-agers. It is individuals, finally, not groups, who suffer from unemployment. A 40-year-old textile worker with a family has just as much right to a job as a 17-year-old high school dropout. There is no justification for Congress to give employers incentives to hire the young at the expense of others.

Michigan economist Edward Gramlich's research provides another argument against treating young workers differently. A large proportion of poorly paid, unskilled teen-age workers come from middle-income homes. Fully 40 percent live with families whose incomes exceed \$15,000 per year. Thus a minimum-wage exemption designed to aid Harlem teen-agers is as likely to provide jobs for suburban 18-year-olds. And they may displace adult workers who support families.

The basic effect of an increase in the minimum wage, then, would be to intensify the cruel competition among the poor for scarce jobs. If we are serious about insuring a decent income for those willing to work, let us do so directly by creating jobs through government programs and subsidizing the labor of those who are unproductive. Minimum-wage legislation has no place in a strategy to eliminate poverty.

A Good Way to Build a Pipeline

When negotiators from Canada and the United States meet shortly to seek agreement on a natural gas pipeline, they will be spared the slipshod planning that preceded construction of the pipeline for Alaskan oil. The reason, surprisingly, is the National Environmental Policy Act, a law often portrayed as the natural enemy of vast engineering projects.

The act, which became effective in 1970, makes society look before it leaps—[illegible]

But in preparing an environmental impact statement in 1975-76, the Federal Power Commission devised a third option—one that was further developed by a consortium of companies and is the focus of the forthcoming negotiations. Under this Alcan proposal, a gas pipeline would be built south through Alaska, and then, near Fairbanks, would turn east into Canada (where a link might eventually be built to tap Canadian gas fields), then south

Letters

Medica

To the Editor:
Roger's and Bl[...] creased public a[...] tures for medical [...] sented in a rece[...] ill-founded:

• Such increas[...] not ipso facto, [...] services; half of t[...] ing since 1950 [...] prices, not more [...] been exacerbated [...] demand-pull infla[...] Federal health ep[...] and poor.

• The authors [...] that the evidenti[...] creased spending [...] cess) and improv[...] at best tenuous; a[...] Ed June 26), medic[...] have a "negligible[...]

• The real gains [...] in recent decades [...] tinue to be achie[...] tion: better nutriti[...] smoking and alcoh[...] blood pressure co[...] and safer roads, [...] air bags), reduced [...] talizations and sur[...]

The authors c[...] ternal and infant [...] examples of the b[...]

Suburbs: 'W

To the Editor:
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Reality is define[...] its usage. The "[...] farms, and the Ea[...] the source of the [...]

8/17/77

4/5/1996

The New York Times

Founded in 1851

ADOLPH S OCHS, *Publisher 1896-1935*
ARTHUR HAYS SULZBERGER, *Publisher 1935-1961*
ORVIL E DRYFOOS, *Publisher 1961-1963*
ARTHUR OCHS SULZBERGER, *Publisher 1963-1992*

Boost the Minimum Wage

There is a strong case for raising the minimum wage by a modest amount. Unfortunately, the issue caught up in election-year politics, making compromise unlikely. Senate Democrats rounded up 55 members last week to force a vote on it, but they needed 60 votes so the effort failed. Few Democrats shed tears, since they could pin the defeat on the majority leader, Bob Dole.

The Democrats proposed raising the minimum wage over two years to $5.15 an hour, which would raise earnings for these workers by 90 cents an hour, or about $1,800 a year. Even at $5.15, the minimum wage would, after taking account of inflation, remain 15 percent below its average value during the 1970's.

Will low-paid workers lose their jobs if employers must pay higher wages? Yes, but there is widespread agreement among economic studies that the impact would be very small. A 90-cent wage hike would probably wipe out fewer than 100,000 of the approximately 14 million low-paid jobs in the economy — less than a 1 percent loss. Indeed, 100,000 represents only about half the number of jobs the economy typically creates each *month*.

The benefits of a higher minimum wage would be substantial. At $4.25 an hour, minimum-wage workers cannot count on earning their way out of poverty. But at $5.15 an hour, or $10,700 a year, the goal is in reach. By combining earnings, food stamps worth about $3,000 and tax credits of $3,500, such workers can clear the poverty threshold for a family of four — about $16,000 — even after payroll taxes. That would be a victory for public policy.

The Republicans criticize the minimum wage as a crude antipoverty tool, and in a sense they are right. For one thing, about 40 percent of the recipients are teen-agers, some from middle-class families. A better tool, which enjoys bipartisan support, is the earned income tax credit. The tax credit directly benefits low-paid workers, either by cutting their taxes or, if they owe no tax, giving them a check from the Treasury. The credit is structured to encourage the poor to go to work without hitting their employers.

There are, however, limits to how much higher Congress can push the tax credit. Congress sets the credit for poor workers, and phases it out as wages rise. The higher the initial credit is, the faster the phaseout must become in order to limit the impact of the tax credit on the deficit. But phasing out the tax credit hits near-poor workers just like a tax hike — discouraging them from working longer hours or taking higher-paid jobs.

The best antipoverty strategy is to mix tax credits and minimum wages. At President Clinton's urging, Congress recently raised the tax credit. The next step is to raise the minimum wage by the modest amount the Senate Democrats have proposed. The Democrats should try again. Republicans supported such policies in the past. Perhaps Senator Dole can summon the will to do so this election year.

Mad Cows and Europe

The furore in Britain over mad cow disease — and its possible link to a rare but similar brain affliction in humans — has left Britain's $6 billion cattle industry in a shambles. The crisis also ...

the money needed to compensate British cattle farmers; Europe agreed to only 70 percent.

The difference, about $250 million, may seem ...

Assisted Su

To the Editor:

The ruling by a Federa court in Manhattan that p may legally help their patie mit suicide (front page, weakens the age-old Judeo-(value of the sanctity of life moral underpinning of the profession.

A key concept in the cou ion was its equating a ph withdrawal or withholding support in a terminally ill with prescribing medication the patient could commit su

Most physicians who d critically ill patients wou this logic outright. If death nent, then withholding or w ing life support is appropi cause it prevents the prolon the dying process.

This is indeed more "natu morally acceptable than pre a lethal dose of medication t tient, reasoning, albeit suffe man being. The latter is reprehensible and emotion pugnant to a large majority

How Marco Pol

To the Editor:

Re Karl E. Meyer's "Re Marco Polo" (Editorial No April 1):

The doubts of Frances Wo others that Marco Polo reach na — based on his failure to the Great Wall, Chinese foot-b tea drinking and calligraphy - from a misconception of th poses of Polo's travels.

Polo made no mention of the Wall not because he was not but because it was not. Th Dynasty built the wall that w mostly in the 16th century. Polo visited China in the 13th

Polo went to China to see n Chinese but the Mongols, wh just completed the conquest of and offered opportunities for fo ers, even Italians, to profit commercial ventures there.

Polo's business and social a ties were focused on the ruling gols and their non-Chinese as ates in the upper levels of gov ment rather than on their Ch subjects, who served in low-lev ministrative positions.

Thus Polo banqueted with Mon and reported on their beverages

Understanding H

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The Right Minimum Wage: $0.00

The Federal minimum wage has been frozen at $3.35 an hour for six years. In some states, it now compares unfavorably even with welfare benefits available without working. It's no wonder then that Edward Kennedy, the new chairman of the Senate Labor Committee, is being pressed by organized labor to battle for an increase.

No wonder, but still a mistake. Anyone working in America surely deserves a better living standard than can be managed on $3.35 an hour. But there's a virtual consensus among economists that the minimum wage is an idea whose time has passed. Raising the minimum wage by a substantial amount would price working poor people out of the job market. A far better way to help them would be to subsidize their wages or — better yet — help them acquire the skills needed to earn more on their own.

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An increase in the minimum wage to, say, $4.35 would restore the purchasing power of bottom-tier wages. It would also permit a minimum-wage breadwinner to earn almost enough to keep a family of three above the official poverty line. There are catches, however. It would increase employers' incentives to evade the law, expanding the underground economy. More important, it would increase unemployment: Raise the legal minimum price of labor above the productivity of the least skilled workers and fewer will be hired.

If a higher minimum means fewer jobs, why does it remain on the agenda of some liberals? A higher minimum would undoubtedly raise the living standard of the majority of low-wage workers who could keep their jobs. That gain, it is argued, would justify the sacrifice of the minority who became unemployable. The argument isn't convincing. Those at greatest risk from a higher minimum would be young, poor workers, who already face formidable barriers to getting and keeping jobs. Indeed, President Reagan has proposed a lower minimum wage just to improve their chances of finding work.

Perhaps the mistake here is to accept the limited terms of the debate. The working poor obviously deserve a better shake. But it should not surpass our ingenuity or generosity to help some of them without hurting others. Here are two means toward that end:

☐ *Wage supplements.* Government might subsidize low wages with cash or payments for medical insurance, pensions or Social Security taxes. Alternatively, Washington could enlarge the existing earned income tax credit, a "negative" income tax paying up to $800 a year to working poor families. This would permit better targeting, since minimum-wage workers in affluent families would not be eligible.

☐ *Training and education.* The alternative to supplementing income for the least skilled workers is to raise their earning power in a free labor market. In the last two decades, dozens of programs to do that have produced mixed results at a very high cost. But the concept isn't necessarily at fault; nurturing the potential of individuals raised in poverty is very difficult. A humane society would learn from its mistakes and keep trying.

The idea of using a minimum wage to overcome poverty is old, honorable — and fundamentally flawed. It's time to put this hoary debate behind us, and find a better way to improve the lives of people who work very hard for very little.

Howard Beach and the Governor

Governor Cuomo, who has been taxed for his lack of visibility regarding the Howard Beach racial assault case, has now moved adroitly and decisively by appointing Charles Hynes as special prosecutor. Mr. Hynes, who is already serving as the state's special prosecutor for official misconduct, apparently has won the confidence of the victims of the attack — enough so for them to pledge the cooperation they had withheld from Queens District Attorney John Santucci.

Already, a judge has reduced murder and other charges to reckless endangerment because Cedric Sandiford, who was beaten and saw others beaten, refused to testify. His lawyer, Alton Maddox Jr., complained with some basis that Mr. Sandiford was treated roughly by the police. He went on to complain, this time without any proof, that police had covered up for one of the assailants. Now that Mr. [illegible] ...dicate their own legal order. State and Federal intervention are best reserved for instances when local officials refuse to enforce their own laws. Here the District Attorney was more than willing to prosecute but circumstance denied him the key cooperating witness.

Federal civil rights laws remain available should state efforts falter, but prudence dictates holding them in abeyance. Governor Cuomo correctly cites the need for New York to enact its own civil rights laws, to set the state more firmly against racial violence.

The impasse surmounted, Mr. Hynes may win the cooperation not only of the surviving victims but of other witnesses as well. A prompt grand jury investigation is now in order. Justice is due to Michael Griffith, who was killed by an automobile as he fled the attack, and the survivors. Justice is due also to [illegible]

1/14/87

Letters

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To the Editor:
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The Minimally Useful Minimum Wage

Congress will debate a new minimum wage this spring, but this time there's a twist. Organized labor, drained by the battle to raise the wage floor every few years, is pushing for a permanent solution: indexing. This approach, proposed by John Dent, chairman of the House Labor Standards Subcommittee, would replace the current $2.30 minimum with an index keyed to the average manufacturing wage. Chairman Dent wants the minimum set at 55 percent of that average wage—about $2.85 an hour this year—and 60 percent in 1978, about $3.30. With such an index, the minimum wage would automatically be tied to the fortunes of industrial workers, eliminating the need for periodic Congressional amendments.

Since the Depression, liberals have favored higher minimum wages while conservatives have resisted. But this debate has become sterile. Whatever the merits of minimum wages in the past, they make little economic sense today, whether determined by indexing or in the old-fashioned way.

Organized labor favors a high minimum wage because that reduces management's resistance to union recruiting. Where cheap alternative sources of labor are eliminated, high-priced union labor no longer looks so bad to company managers. Support for a wage floor also comes from people with generous hearts. Is it fair, they ask, to require anyone to work for $70 or $80 a week, the take-home pay of employees earning the $2.30 minimum?

It may not be fair, but a higher minimum offers no remedy. Some businesses that pay low wages respond to an increased wage floor with or without an index—by cutting back operations or switching to labor-saving techniques. According to the Department of Labor, eight million workers would be directly affected by the $2.85 minimum. A majority would probably benefit from higher paychecks. But some workers would be laid off or forced into the fringe of the labor market not covered by the minimum wage laws. Just how many jobs would disappear is not known; rough calculations put the figure between 200,000 and one million.

Snowbelt representatives, eager to stanch the flow of industry to the South, offer an additional rationale for minimum wages. They argue that urban living costs and union pressure force companies in older cities to pay high wages, even without a minimum wage. Thus a substantial boost in the minimum would fall most heavily on the low-wage states, and make them less of a lure to corporations in the North.

A higher floor would indeed make Northern cities more competitive with small towns in Mississippi. But a hitch remains: Some poor people would benefit at the expense of other poor people. And if a higher minimum wage did shift more unskilled jobs to the Snowbelt, would anyone up North really want the result—more unemployed people in Mississippi with no choice but to head for those jobs in Detroit?

Some proponents of higher minimum wages suggest a compromise: to raise the minimum for adults, but to exempt teen-agers, the group that is most vulnerable to layoffs. The idea has a certain appeal. Young workers need the extra money less than the typical adult, who must support a family. Exempting teen-agers, however, would induce employers to substitute cheaper young labor for more expensive adult labor, a substitution of dubious social benefit. The idea looks particularly bad after the discovery by Edward Gramlich, a Michigan economist, that many teen-age workers are members of middle-class families, not the intended beneficiaries of a lower youth minimum.

A higher minimum wage is no answer to poverty, and the indexing gimmick can't work any better to improve the lot of the neediest citizens.

'Liberation' Comes to Vietnam

In the swell of opposition to the war in Vietnam during the decade before America's withdrawal, there was always a minority, small but vehement, that looked to the Communists as saviors of that unhappy land. They carried Vietcong flags in peace demonstrations, hailed Ho Chi Minh as the George Washington of his country, Stalinism, that "terror is the essence of totalitarian domination." In the list of countries that are today suffocating the rights of their citizens, Vietnam must rank high.

To be sure, this finding, however repugnant, does not make a case in favor of the American intervention in

Letters

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To the Editor:
The Times' edi garding Walter dinarily generous to the Metropoli plete its building tablish and ope period a Fine A serious factual rected, largely e some issues" rel

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To Talk to

To the Editor:
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One hopes this repeated from t

for Americans to take pride in some Reagan Administration conduct in South Africa. Washington has rightly and promptly condemned the Pretoria Government's sweeping new rules barring protests against mass detentions without trial. Better still, Edward Perkins, America's new Ambassador and a black, made a point of participating in an ecumenical service in Cape Town that offered defiant prayers for the detained.

These are only symbolic gestures, but they are not empty. Witness the angry reaction yesterday from South Africa's Foreign Minister, who demanded that Western envoys attend a briefing on black violence. Even symbols can spotlight an outrageous wrong: An estimated 30,000 people, including perhaps 10,000 children, have been detained without trial in South Africa's bursting jails.

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Last weekend Pretoria added a further repugnant twist. It forbade citizens to protest those detentions — even forbade praying for the children. That provoked the protest service in Cape Town, conducted by Anglican, Catholic, Dutch Reformed and Jewish clergy. The Government backed down, exempting bona fide religious gatherings from the ban on protests. During Holy Week at least, South Africa's white rulers judged it unwise to try to detain the Lord by closing down His house.

Only the Government knows the true total of detainees ... own lists of detainees or their own accounts of prison conditions. Under the new rules, it is forbidden to protest by signing petitions, sending telegrams, pasting stickers — even by wearing T-shirts with slogans.

Presumably, the intended effect is to impress white voters with the Government's toughness heading into a May election that the ruling National Party is universally expected to win. The unintended effect is to widen the distance between President P.W. Botha's rigid regime and the West, to which white South Africans look for approval and understanding.

Whatever arguments persist over the effectiveness of Western economic sanctions, there can be no argument about the excesses of emergency rule. The challenge by the churches signals a new turn: now clergymen are calling for sustained protests. It's one thing to detain little-known blacks in remote townships, quite another to contemplate detaining Archbishop Desmond Tutu, his Roman Catholic counterpart or white leaders of a Dutch Reformed Church that no longer discerns divine sanction for apartheid.

Ambassador Perkins, largely invisible since his arrival last November, has now become forcefully visible. His symbolic gesture offers a new and welcome example for the Reagan Administration. There may be hope yet that Pretoria will have to stop looking to Washington for comfort.

Don't Raise the Minimum Wage

Democratic legislators are right to search for ways to help the working poor, but wrong to think that raising the minimum wage is one of them. To do that would hurt many low-income workers, something legislators need to grasp before ramming a bill through Congress.

Senator Edward Kennedy and Representative Augustus Hawkins, Democratic chairmen of the Congressional Labor Committees, propose raising the minimum wage in three annual steps to $4.65 an hour, from $3.35, where it has stood since 1981. According to a spokesman, Senator Kennedy considers raising the minimum wage as "something like an anti-poverty program for the working poor without any Federal spending." That last part is especially seductive in a time of budget restraints.

Congress has increasingly been putting more burden on employers, like higher minimum wages or particular health and welfare benefits, as the Federal deficit has made Government financing harder. These requirements amount to a hidden tax. In the case of the minimum wage, the tax is on the jobs of those at the lowest rung. At $3.35 an hour, the minimum wage has lost 27 percent in purchasing power since 1981. A full-time worker at that rate earns less than $7,000 a year. Even at $4.65 an hour, the worker would earn less than $10,000, not even reaching the poverty level.

But the increase would come out of the hides of other working poor people. Employers are bound to circumvent a higher minimum wage in two ways: by evading the law through underground, sub-minimum hiring or by letting workers go. A higher minimum wage would probably price many working poor people out of jobs, since they could not demonstrate the productivity necessary to justify the higher wage.

Advocates argue that no one has proved that previous increases in the minimum wage cost jobs. Yet the Administration and many economists argue that a *lower* minimum wage is needed — to create jobs for unemployed young people. The proponents also argue that, even if some jobs are lost from a higher minimum, the overall benefit to the working poor will offset it. That's an argument likely to persuade only those whose jobs are secure.

There are at least two other approaches toward the same goal of helping the working poor, neither with the negative side effects of a higher minimum wage. In the short run, the Government could supplement the wages of working poor families. The vehicle for doing so already exists in the Earned Income Tax Credit, a kind of negative income tax.

Ultimately, the working poor would be helped most by gaining the job training and skills necessary to qualify for higher paying jobs. Senator Kennedy recognizes this, as is evident from his Jobs for Employable Dependent Individuals program for welfare recipients, recently passed by the Senate. But if there is any group that skills enhancement can help, it is the working poor, who already possess the work ethic.

The Government has not been notably successful in job and skills training in the past, but that's no reason to quit trying. Either income subsidies or training would do more for the working poor than raising the minimum wage. Such a raise may sound good, it probably does harm.

A 'So What!' to Better Health

Two months ago the New York State Public Health Council, using authority granted by the Legislature in 1913, did what the Legislature has steadfastly refused to do. It issued rules limiting smoking in public. The regulations, which will take effect May 7, aren't intended to turn smokers into pariahs but to spare the 70 percent of New Yorkers who don't smoke from sharing the other 30 percent's habit — and health risk.

The Legislature, however, remains stubborn. Claiming that the Council usurped its authority, the lawmakers won't give the State Health Department the $300,000 it needs to smooth implementation of the rules by providing six health educators and a lawyer to advise employers and restaurateurs. It's an unseemly petulant display.

In saying "So there!" to the Health Council, the Legislature also says "So what!" to the facts about cigarettes and health. Smoking is responsible for 9 out of 10 lung cancers, a third of all heart disease deaths and the vast majority of deaths from emphysema and chronic bronchitis. Small wonder that the Council, which is empowered to amend the state's sanitary code on "any matters affecting the security of life or health or the preservation and improvement of public health," acted as it did.

As Governor Cuomo pointed out yesterday, lawmakers who oppose the rules retain the power to pass other rules superseding them. The Health Council acted in the interest of New Yorkers who want to breathe cleaner, healthier air. In whose interest is the Legislature's obstructionism?

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To the Editor:

As a former intelligence off
the Dutch Government, I am n
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bassy in Moscow.

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New York, March 3

Canceled: A Vital C

To the Editor:

When George Miller, chairm
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March 24), he failed to mentio
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To the Editor:

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Island's War Over Wetlands
torial Feb. 7)

What the Kidnappers Want in Lebanon

By kidnapping an American colonel in Lebanon, a Lebanese faction backed by Iran does more than attack America, the Great Satan that Iran so loves to hate. It attacks the stabilizing United Nations presence in southern Lebanon and attacks Amal, the mainstream Shiite militia that welcomes the U.N. If such acts of terror succeed in diminishing the U.N. presence, Lebanon's tragic chaos might yet reach even deeper depths.

As chief of staff of the Lebanon contingent of the U.N. Truce Supervision Organization, Marine Lieut. Col. William Higgins maintained communications channels between the armed U.N. peacekeepers of Unifil and the various other armed entities on the scene. The largest and most important is Amal, which represents the more moderate faction of southern Lebanon's largely Shiite population, and which generally cooperates with the U.N. forces.

But Amal and the U.N. are resisted by radical groups like the Party of God and the Organization of the Oppressed on Earth. The latter group now contends it holds Colonel Higgins.

Amal, which has been trying to rescue Colonel Higgins, is an ambiguous ally. It has previously helped Americans out of the clutches of its rivals, yet is thought to have been involved in other terrorist episodes involving Americans. Amal and its de facto U.N. ally are the main forces now protecting southern Lebanon from a possible takeover by Iranstyle revolutionaries. This is not the first attack against the U.N. forces; for the radicals to drive out the U.N. would be a step toward defeating Amal. And that would mean explosive new instability near Israel's northern border.

Colonel Higgins's kidnapping is thus a harsh reminder that the status quo in southern Lebanon cannot be taken for granted. European nations contributing contingents to the U.N. units are justifiably jittery. Earlier this month, two Scandinavians working with the U.N. relief agency aiding Palestinian refugees were kidnapped. With U.S. contributions now badly in arrears, the U.N. forces also suffer financial problems. And Syrian-Israeli discussions over Lebanon remain broken off. Given the unrest in Israel, they are unlikely to resume soon.

Secretary Shultz is due in the Middle East this week. He has declared his intention to make the region his highest priority during the Reagan Administration's last year. Southern Lebanon warrants a place on that priority agenda.

The Minimum-Wage Illusion

It's small wonder that politicians like the idea of raising the minimum wage: improving the lot of the lowest-paid workers seems virtuous, at no apparent cost to the public. But the rationale is half-true at best, and the free price tag is false.

The minimum wage has been stuck at \$3.35 an hour since 1981. Legislation now in a House Education and Labor subcommittee would raise it to \$4.65 an hour over three years and peg it afterward at one-half the average hourly wage for nonsupervisory workers.

Without question, \$3.35 an hour is not a living wage for a family. Proponents of an increase point out that the cost of living has gone up 30 percent since 1981. A person working full time at the \$3.35 rate in 1986 would have earned \$4,600 less than the poverty level for a family of four. The question is whether legislating a higher minimum would improve life for the working poor.

It definitely would — for those who still had work. But by raising the cost of labor, a higher minimum would cost other working poor people their jobs. The Department of Labor estimates that each 10 percent increase means that 100,000 to 200,000 jobs would be eliminated or not created. The House legislation contemplates an increase of nearly 40 percent. The cost to the Treasury, in lost taxes and unemployment payments, would be substantial.

Why not attack the problem of inadequate wages directly, with subsidies? One potential mechanism is already in place: the Earned Income Tax Credit, a negative income tax that can be worth \$800 to a working poor family. Expanding and refining this device could easily put more money into the pockets of low-wage workers.

The problem might also be addressed by efforts to improve the skills of minimum wage workers so that they can qualify for higher-paying jobs. This is particularly important for teen-agers and young adults, who make up more than half the minimum wage work force.

Raising the minimum wage is not cost-free, just cost-concealing. Congress owes the working poor well-designed help, not a well-intentioned illusion.

The Editorial Notebook

Health 'Oasis' for Homeless Kids

To Help Children, Help Their Parents

Paul Simon, the singer and composer, reasoned that if he couldn't change the world for New York's homeless, he might at least make sure their children got the kind of medical care that most American families take for granted. (About all welfare hotel families can take for granted is a rotten room, a balky elevator, junk food and shouts in the corridor.) That's why today he's the founder and major funder of The New York Childen's Health Project.

Since November, a medical van has been turning up daily at one or another of 12 hotels in which the city houses homeless people. So far its staff, all from New York Hospital, with which the project is affiliated, have seen about 3,000 of the city's 11,000 homeless children.

The van, besides being a doctor's office on wheels, is also an oasis. Clean, bright and cheerful, it is everything that a welfare hotel is not. The first patient one recent afternoon was a two-month-old girl who had already lived in five different places since her birth. Upstairs, her food was kept on the windowsill, and there was no crib or baby bathtub. Even so, her snowsuit was immaculate, and so was she. Other patients included Joelle and her brother Jamil, a bright and funny pair, and Josefina, whose mother would love to enroll her in Head Start but can't because she must spend so much time dealing with her own health problems and welfare red tape.

The curbside van, in other words, brings out of the hotel the more appealing children and the more competent parents. But there are other parents in the hotel — "people in here who use crack and stuff," whispers the two-month-old's mother. "And their babies are *dirty*." Indeed, inside the hotel's lobby a woman takes a vicious swipe at her small son and screams obscenities at her companions. How can their children be assured access to the medical care only a few steps away?

Dr. Irwin Redlener, who helped Mr. Simon develop the project, speaks of "going from door to door if necessary, no questions asked," but even he sometimes fears to go past the lobby of this particular hotel. The fear is justified: a 13-year-old crack dealer was stabbed 14 times and left for dead here a few weeks ago.

Still, Dr. Redlener and his staff are giving thousands of children what may be the first real medical attention they've ever had. They talk of the need for a second van and a jitney for transportation to the hospital. But they also recognize the need to devote more attention to the parents: "You could spend hours with these families," he says. One day they hope to offer psychiatric and drug prevention counseling.

If New York were to produce more people like Paul Simon, that day could come sooner — soon enough, perhaps, to help that bewildered little boy in the lobby and his sick, screaming mother.

MARY CANTWELL

report that in 1936 I attended his lectures in Freiburg, Germany, two years after he relinquished his position as rector of the university. At that time the students stood when the professor entered through his door; when he got to the center of the platform he gave the Hitler salute, the students accompanying him. At the end of the lecture the ritual was repeated. Heidegger, of course, was not the only professor who collaborated.

On one occasion at Harvard a student said, in Paul Tillich's hearing, that by reason of Heidegger's being a Nazi collaborator one should not study his philosophical writings. Tillich responded that if one were to use that criterion, then one should also reject the writings of Plato, who at one time served the tyrant of Syracuse.

JAMES LUTHER ADAMS
Professor Emeritus
of Christian Ethics
Harvard Divinity School
Cambridge, Mass., Jan. 6, 1988

How Good Is West Poi[nt]

To the Editor:

The West Point "fourth-class system" of freshman (plebe) initiation that Cadet Steven J. Butler so ardently defends (letter, Feb. 6) may be doing him and the cause of competent military leadership in this country a lot more harm than good.

During a week with West German Army units, I was struck by the level of technical competence and strength of leadership on the part of German lieutenants compared with the situation in the United States Army.

All West German officers serve first in the enlisted ranks. The lieutenant commanding a tank platoon has served as a tank driver, loader, gunner and tank commander. The soldiers under his command know that. In contrast, the United States

Making the Best Use

To the Editor:

In The Editorial Notebook (Feb. 7), Arthur Ochs Sulzberger makes note of a practice of long standing, wherein civil juries in New York State Supreme Court are selected by lawyers without the presence of a judge. This practice, although not without its problems, has been successfully in use in New York State since time immemorial.

In 1962, Rule 4107 of the Civil Practice Law and Rules was adopted, for the first time requiring the presence of a judge during civil voir dire on request of any party to the lawsuit. That rule is still in effect today, and judges are often present during civil voir dire. Nevertheless, it would be fair to say that the overwhelming number of civil jury selections take place without a judge present. So that while judges may not always be present, they have not quite "disappeared," since they were usually never present in the first place.

As to whether the system would make better ose of judges' time and efficiency by requiring judges to be present is quite problematic. The time saved in jury selection would inevitably be more than offset by the

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The Minimum Wage: A Distraction

Finally, the long, bitter battle over raising the minimum wage comes down to this: It doesn't make much difference. To working poor people, the pluses and minuses pretty much cancel out. In Congress, the adversaries seem willing, for the first time in eight years, to compromise.

But a red danger light still flashes. All the unfamiliar movement toward accord is likely to distract from a different raise, one that would truly help millions of poor people who work hard all day, every day: the earned income tax credit. Anyone serious about work and serious about minimizing poverty will now press to increase it.

•

House and Senate committees have approved a $1.30 increase in the $3.35 minimum wage, to be phased in over three years. In return, liberals and labor have abandoned attempts to index the minimum to the cost of living. They may also have to settle for less and accept a "training" minimum, still lower, payable during the first few months on the job.

The economist's arguments against the minimum wage haven't changed. The higher the minimum, the more unskilled jobs employers will eliminate. Moreover, most of those who do benefit from increased wages will be part-time workers from middle-income families. What has changed is the likely impact.

The Labor Department still estimates that 650,000 jobs will be lost if the minimum wage goes up by $1.30. But that estimate is based on decade-old research. Inflation has eroded the value of the minimum, thus greatly reducing the number of jobs likely to be abolished to something like 100,000. President Bush's proposed second-tier training minimum wage would further reduce that loss.

That fewer jobs are at risk is no reason to increase the minimum wage. But it does explain why few Congressmen are willing to anger supporters by opposing it. No one should be fooled, though. An increased minimum is no answer to poverty. Even poor people who benefit from an increase to $4.65 will still not earn enough to raise a family of three above the poverty line.

There is, however, a remarkably precise, sensible way to improve the plight of the working poor: *the earned income tax credit*. It puts extra money in the pay envelopes of low-wage workers. To increase the minimum wage would merely look good; to increase the tax credit would do good.

Low-income workers can now claim a 14 percent tax credit, for a maximum of $953, either subtracting it from taxes owed or, if they don't pay that much in taxes, receiving a refund from Washington. That's like a 14 percent increase in wages. But the credit doesn't change an employer's costs and thus does not encourage him to abolish jobs.

Representatives Thomas Downey, Democrat of New York, and Thomas Petri, Republican of Wisconsin, propose beefing up this refundable credit. Under the Petri plan, for example, a poor family with two preschool children would receive a 35 percent credit, or a maximum of $2,450.

In principle, increasing the earned income credit should appeal to Congress and the President. His own child care credit proposal follows the same lines. The big question is whether support in principle will translate into willingness to finance a new program costing billions. For those who really care about the working poor, the issue is not the minimum wage but minimizing poverty. The tax credit is the right way.

New York Needs Life, Not Death

Every year for the last 12, New York's Legislature has passed death penalty bills but failed to override governors' vetos. On Monday, Governor Cuomo again vetoed a death penalty bill. But this year the Assembly has registered 99 votes for it, one shy of the two-thirds majority needed to override. That challenges every opponent of the override to hold firm.

Drug-related violence and police killings drive this year's debate, and public sentiment is understandable. Rising awareness that the criminal justice system can't fully protect against crime in the streets inspires fear and hasty reactions. Won't capital punishment get rid of some killers and deter others? Failing that, wouldn't it at least [illegible] loved ones? That's a tricky — and inappropriate — challenge for public policy. A comprehensive survey by New York Lawyers Against the Death Penalty, a group of prominent lawyers, points out that survivors don't necessarily want blood, many have quietly sought clemency for killers. Some who do demand revenge aren't satisfied by "humane" executions, the killer doesn't suffer enough. Which view should prevail?

Death Penalty: One Test

The Legislature need not deal with such issues in any case because Governor Cuomo offers a better law, creating a life sentence without parole for capital crimes. The Democratic-controlled Assembly has passed such measures but the Republican Senate [illegible]

Letters

There A

To the Editor:
The success of Chri[...] to put a news progra[...] cials in the schools, c[...] "Commercials, Plus E[...] Ed, March 1), will sh[...] cided by educators, to[...] sion properly belong[...] been missing in the de[...] is light on what's alre[...] with television in t[...] There are growing nu[...] lic-private partnershi[...] education that do no[...] mercializing educat[...] should be encouraged.

Television in the [...] rooms is not a new [...] done for nearly 40 [...] tional television witho[...] reaches some 30 mil[...] elementary and seco[...] every day. These [...] curriculum-based, an[...] tional design has bee[...] approved by educators.

These programs ar[...] able primarily by the [...] nals of the country's 3[...] sion stations, but they [...] schools by videocasse[...] satellite. Public broa[...] distributes more than [...] instructional program[...]

Public television is [...] new pathways to the sc[...] tucky Educational Net[...] ping every educationa[...] the state with a sate[...] South Carolina netw[...] educational services t[...] through a system of b[...] lite and cable technolog[...] troit is working hard [...] people to combat the [...] drugs, dropouts and viol[...]

As for business-educ[...] ships, expanded sup[...] education is part of t[...] grams of American E[...] ternational Business [...] poration, Xerox, the A[...] phone & Telegraph C[...] eral Motors and many [...] nies. Corporate suppo[...] forms from job training [...] and teacher education t[...] of public television.

Educational outreac[...] tegral part of many [...] casting Service progra[...] ten by corporations. [...] vides for school use [...] teacher materials for " [...] graphic Specials", the [...]

Time to Lift Sa[...] Against Panan[...]

To the Editor:
We strongly endors[...] ments in "The Shout f[...] America" (editorial, Fe[...] leaders of the region hav[...] to tell Washington for [...] now that they recogniz[...] ties, and are prepared [...] chances on political [...] and "The Reagan Ad[...] never listened. Now [...] shout grows louder. Mr. [...] Baker can't help but hea[...]

We would like to add a [...] a glaring omission. Pana[...] the Central American [...] also been shouting. Like[...] it has been willing [...]

Mr. NEUMARK. Let me start out on the financing side. Obviously you can finance this in principle from anywhere. I would not want to go on the record as supporting financing out of lower welfare or food stamps, but that is obviously a possibility. One could just as well reduce expenditures in other areas or raise taxes in other areas, if I can say that here.

The notion of reducing the income tax and Social Security tax in low-income workers' pay is obviously very sensible. That will increase the effective wage they earn and should encourage them to work. It seems perfectly reasonable and it seems better than some other programs that have been tried in the past, such as subsidizing hiring or something like that which lead to all sorts of complications.

The only thing you want to avoid is something that gives the employer credit when an employer has a new low-wage worker working for them always gets into the potential problem of the employer trying to artificially keep up the number of new workers by perhaps churning through them more quickly. But certainly in dealing on the income tax side for the worker, simply eliminating those taxes or eliminating them would seem to be a reasonable way to go.

Mr. MCINTOSH. The intent of our proposal was not to give the employer credit, but to make sure that there was credit on behalf of the employee being paid into the Social Security trust fund so they were not penalized later when they tried to withdraw from that fund upon retiring.

Thank you very much. I have no further questions, but Mrs. Slaughter has joined us. Do you have any questions for Professor Neumark.

Ms. SLAUGHTER. Yes, I do. Thank you, Mr. Chairman.

I heard a lot of reasons for not raising the minimum wage, like kids would all drop out of school because they are too juvenile about it. They would want to run out to Burger King has never been one of them.

Dr. Evans, who couldn't be here this morning, sort of refuted your work and said you consistently underestimated the number of young people who claim that work is their major activity, but are also in school. Seventy-five percent of them are indeed in school full time. It really seems kind of surprising. If your whole research is based on inaccurate statistics on how many people are in school or working, how can you make this grand assumption that raising the minimum wage again would drive people out of school?

Mr. NEUMARK. Their paper claims two things. There are two issues here. One, there are different ways in the Current Population Survey, which are the data sources we and they use to measure enrollment. We use data from May and the main question is what is your major activity, to which work or school or other things can be the answer. They use more recent data in the early 1980's which provide an independent measure of enrollment, so you can be both enrolled and working.

Ms. SLAUGHTER. Don't you think in the case of teenagers that is usually the case?

Mr. NEUMARK. That is not entirely clear. One can argue about which schooling measure is better. Theirs is more encompassing.

Their schooling measure will include people who are taking a course and working full time. Ours will include only those who call it their major activity. That is an open question. I certainly agree with you.

In their paper what they do is they claim that when you use this other measure—it is certainly true you get more students enrolled using their measure than using major activity, as you would expect. They claim in their paper that when you take all of our data, but instead measure enrollment using that other CPS question, that these results, in particular the increase in the proportion of neither in school nor employed goes up goes away. Their paper does show that.

However, we have gotten their data and examined it. Again, this is all going on so far in the realm of unpublished papers, so if one wants to be a little more cautious in interpreting it—what they end up effectively doing is using some data from May and some from October. We have gone back and taken the data all from October, so the data are all defined on a consistent basis, and our results come back.

So it seems like—and, again, this is still an exchange going on between us and them—it seems like the result is simply a consequence of mixing up data from different months. And what happens when you do that so this doesn't sound too mysterious, is they end up misclassifying a lot of minimum wage increases.

They are using enrollment in October. Many of the minimum wage increases in our sample occurred between May and October. So they end up saying a minimum wage increase occurred a year later than it did pretty frequently, or missing some minimum wage increases altogether in the last year of the sample.

Ms. SLAUGHTER. It just depends on what month you want to take the sampling, is that what you are saying?

Mr. NEUMARK. No. You can use either schooling measure, but take all of the data from the same month, and you get our answer. It is only when you take the schooling measure from October and the other data from May, which is probably not a very sensible thing to do because you misclassify wage increases, that the answer goes away. That makes sense. If you misclassify minimum wage increases, trying to detect an effect is going to be harder.

Ms. SLAUGHTER. They claim it is no displacement effect.

Mr. NEUMARK. And when you mix the data from the 2 months, that claim is correct.

Ms. SLAUGHTER. You say there is no employment effect?

Mr. NEUMARK. There is a very small employment effect for teenagers. It is hard to find a negative employment effect for teenagers that is statistically significant, but that is a net effect.

Ms. SLAUGHTER. But if there is no displacement effect and there is no employment effect and if research shows that raising the minimum wage would increase productivity, why not do it? You said that in Business Week, didn't you?

Mr. NEUMARK. One question at a time. I don't agree that there is no displacement effect. The no displacement effect is an artifact if mixing the data from the two different months, I would claim. I have a table here——

Ms. SLAUGHTER. But you said if you did it the same, it would be the same, right? So basically my understanding——

Mr. NEUMARK. Either use all the data from May, or all the data from October. In either of those cases, with either enrollment measure, you do get a displacement effect.

Ms. SLAUGHTER. Can I quote you? If raising the minimum wage spurs technical innovations, it can make a real difference in productivity and leave the economy better off, concedes David B. Neumark, who writes on the minimum wage. So why not do it?

Mr. NEUMARK. I had a 1-hour conversation with Aaron Bernstein sometime last week. I spent the whole hour trying to explain to him why his notion that raising the minimum wage would spur productivity growth was erroneous. Then he said but if it does, would it be good? And I did respond in the magazine—the only quote he pulled out—not in this quote, "Yes, if it does raise productivity it would be a good thing." There is nothing in my statement and certainly nothing in my mind which suggests, in fact, that would happen.

Ms. SLAUGHTER. I tell you after Sunday's New York Times I am a little bit skittish on economists. I hope you will forgive me on that. If you read the article in the "Week in Review" page, which said that all economists now say that downsizing just didn't work. Did you read that on Sunday?

Mr. NEUMARK. I have not seen that, no.

Ms. SLAUGHTER. There is an economist who disagrees with you again, raising the minimum wage would lift productivity then, and then you help those on the bottom and it raises all standards and ensures that low-wage workers aren't left behind. Good for the economy and society alike. I like that conclusion.

Mr. NEUMARK. It is a nice conclusion. I don't know if it is true.

Ms. SLAUGHTER. Thank you, professor.

Mr. MCINTOSH. Thank you very much, professor.

Mr. Shadegg, did you have any further questions?

Mr. SHADEGG. Mr. Chairman, only one. It is a nice conclusion. I take it it isn't yours and you don't think it is accurate; is that right?

Mr. NEUMARK. I don't subscribe to it, no.

Mr. SHADEGG. Thank you very much.

Mr. MCINTOSH. Thank you very much, Professor Neumark. I suppose it would be fitting to conclude this panel with an observation that my great aunt used to make when I said I wanted something very badly while growing up. She said, well, wanting ain't getting it. And then sometimes you might have a conclusion all want to be true but then the facts don't bear you out. We need to pay attention to the facts and do what is best for those that are least advantaged in our society.

I appreciate you coming forward today. I appreciate you bringing forward your data and forcing us to confront those facts and trying to do what is best for people who are working at the lowest wage in our society and trying to improve their position and allow them to have more—have real income that they can spend for their families. Thank you.

Mr. NEUMARK. Thank you.

Mr. McIntosh. On our next panel, if they would please come forward, we have invited numerous people who are actually out there in the real world providing jobs, working in jobs that are minimum wage and trying to seek employment for many of those who are in the least advantaged in our society, and so I appreciate all of you coming forward today to talk to us about the minimum wage and give your advice on what we should do in Congress to make sure we continue to create these jobs and create opportunities for people to have new employment and entry level into the marketplace.

With us today are Ms. Melody Rane, who is a franchisee with Burger King; Mr. Don Baisch, who is a Burger King employee; Mr. James Militello, who is co-owner of the Source Team; and Mr. Bernie Hellgeth, who is founder of Bernie's Mail Bag. And I am going to apologize in advance if I mispronounce your name, but as I read it, Mr. Taalib-Din Abdul Uqdah, who is the co-owner of the Cornrows and Co., and the president of American Hairbraiders and Natural Haircare Association, and Gail Robbins, who is the franchisee of Pizza Inn. I appreciate all of you coming forward today.

If you all please would stand.

[Witnesses sworn.]

Mr. McIntosh. Thank you very much. Let the record show that each of the witnesses answered in the affirmative.

Our first witness on this panel is Mrs. Rane, who owns two Burger King franchises in Eureka, CA. I appreciate you coming forward and testifying on your experience and what effects the minimum wage increase will have in your efforts to create employment opportunities for young people and all people in our society. Mrs. Rane, thank you. Please share with us your testimony.

STATEMENTS OF MELODY RANE, FRANCHISEE, BURGER KING; DON BAISCH, BURGER KING EMPLOYEE; JAMES G. MILITELLO, CO-OWNER, SOURCE TEAM; BERNIE HELLGETH, FOUNDER, BERNIE'S MAIL BAG; TAALIB-DIN ABDUL UQDAH, CO-OWNER OF CORNROWS & CO., AND PRESIDENT OF THE AMERICAN HAIRBRAIDERS AND NATURAL HAIRCARE ASSOCIATION; AND GAIL ROBBINS, FRANCHISEE, PIZZA INN

Mrs. Rane. Good morning. I appreciate being here. I am the mother of four children and together my husband, Jay, and I, own two Burger Kings; one in Eureka and one in McKinleyville, CA. I want to thank the subcommittee for the opportunity to express as a small businessperson a proposal on our business, but most importantly the young people that we employ.

I have provided the subcommittee with the written calculation of what the actual costs of the proposal is in our business. As you can see, our labor costs would increase by over $100,000 per year. This is more than we took together, and we both work full time, as a salary from our business last year before taxes.

Clearly, we simply could not absorb this loss so we would be faced with the following choices. First, we could increase our prices, which would be against our better judgment since last year—well actually it was 3 years ago we reduced our Whopper to 99 cents and started selling meal combos that increased our sales by 30 percent and our profits by 15 percent. The second choice we could have is laying off employees, and the third we could increase prices mod-

erately so we could retain business while laying off employees. And the logical choice and the one we plan on executing is the third. My guess is that most business owners would do the same, which would cause inflation. And then what good have we done anyone?

My biggest concern and the reason I am here today is for the jobs for our youth. As a mother of three teenage sons, I think it is very important for these young people to experience working at a job where they can learn the importance of being productive members of our society. As you can see from my calculation, a lot of jobs would be lost from the minimum wage increase, just in our franchise alone.

Our solution will be to raise prices for half of the increase and lay off workers for the other half. I will have to lay off a total of four full-time workers, that's for each restaurant, or eight part-time workers for each restaurant.

There are about 6,000 franchised Burger Kings and company stores in the United States, which would equate to an estimated 24,000 full-time jobs, or 48,000 part-time jobs. We would be forced to lay off teenagers mostly, as they are almost always inexperienced and require more management time to teach them good work ethics. Only the most productive and hard-working people would survive the cut because we would have to give the same service with less people.

When we first started our business 15 years ago, it took 16 to 18 people to work a busy Saturday lunch rush. Now, we use 12 to 14. With the last minimum wage increase, we went to self-service drinks. There is no avoiding the fact that a further minimum wage increase would mean even fewer job opportunities in our restaurants.

My point is that the minimum wage may be $4.25 now, but it is only a starting wage. My hourly rate is $5.10 per hour, and my fellow franchisees around the country also have comparable average wages, some much higher. Why not leave what is working alone and let the market drive the wages?

A large number of franchisees can't even get employees to come to work for them at $6 an hour, because often we are competing with the welfare system. What incentive does a person have to work in a minimum wage job, whether it is $4.25 an hour or $5.25 an hour, if they can make 2 to 3 times that on welfare and not work at all?

I have asked an employee of ours, Don, to join me here today to tell you his story. He was on welfare when he started working for us at minimum wage. Now, he is a manager for us making almost $20,000 a year.

How many people will not get the opportunity he did if jobs are cut? In fact, every manager—one of our managers—excuse me—in fact, every one of our managers started with us as an hourly employee with no experience, making the minimum wage. Who stays—who says that a minimum wage—excuse me—who stays at a minimum wage all their life?

It upsets us to see the media and others portraying small business owners as heartless people who care nothing about their employees. I am very proud of the hundreds of young people who have worked for us through the years that go on and get bigger and bet-

ter jobs. The real satisfaction we get is when they come back to us and thank us for the lessons we have taught them about working and how we have made a difference in their lives.

In closing, I would just like to say that our industry serves a valuable purpose. We are the first rung on the ladder for many workers. We take pride in seeing them progress to the next, and the next, whether it be with us or with someone else.

Thank you.

Mr. McINTOSH. Thank you very much, Ms. Rane. I appreciate you coming today.

Don, you are our next witness.

I appreciate you coming. You have quite a story to tell about your life, and I appreciate it. You should be proud to be here. Please share with us your testimony.

Mr. BAISCH. Hi, my name is Don Baisch. I am thankful to be here to testify.

I was hired to work at the Eureka Burger King in May 1993. I started at $4.25 an hour. After a few weeks I had proven myself to management and was given a 50-cent raise. Because of a rocky relationship with my wife, I quit and was rehired a few times. But when I found out that we were going to have a baby, I started getting serious about my job.

The manager wanted me to work more hours but because I was on welfare and receiving financial assistance, my case worker told me that until my baby was born I could only work 25 hours a week or I would lose some of my benefits.

After my daughter was born in March 1994, I was allowed to work full-time, and then I accepted a promotion to a crew leader starting at $5.25 an hour. The crew leader helps the manager on duty by making sure all the food prep is done, the breaks are all given out and all the cleaning lists and checklists are done.

After 8 months, after I became a crew leader, I was offered the assistant manager job. I talked to my case worker to see what benefits I would lose and she said that we would lose all of our benefits. Furthermore, she said that if the job didn't work out, we would have to reapply for all the benefits again, which could take months.

In March 1995, me and my—that did it for my wife. She refused to let me take the job.

A few months later in March 1995, me and my wife split up and the assistant manager job was offered to me again. At this time, I took it. Jay and Melody had to start me out at $1,400 a month. This was $200 more a month than normally started for inexperienced managers, just to match my crew leader pay and what I was receiving from welfare.

The welfare system, in at least Humboldt County, discourages you from trying to get ahead and, in fact, discourages couples from getting married because you can get more benefits if you are single, and the case workers tell you that. There needs to be a better way. They should gradually take it away until you are finally on your own.

Jay and Melody and the managers and co-workers at Burger King believed in me and saw what I could not see any more in myself, and I am very thankful for their help.

Thanks to a minimum wage job opportunity, I am completely off welfare now and I have self-esteem and pride again. I hope you think carefully about increasing the minimum wage, because it will provide less opportunities for people like me to turn their lives around.

Mr. McINTOSH. Thank you very much for coming today and sharing your experiences with us. I look forward to talking with you during the questioning period.

Our next witness is Mr. Jim Militello, who is an attorney at Crystal Lake, IL, and co-owner of Source Team, a company which places disabled Americans in low-wage, entry-level jobs to help them become self-sufficient.

Thank you very much for coming.

Mr. MILITELLO. Thank you.

May it please this committee, Mr. Chairman, committee members. My name is James G. Militello III, and with me today is Bernie Hellgeth. We are from Crystal Lake, IL.

I would like to take this opportunity to thank you, and particularly thank Congressman Hastert for allowing us to come here today and testify on behalf of the effects on minimum wage and what that effect will have on small businesses and local government throughout the States.

I, along with two other businessmen, am the owner of a small business called Source Team. Source Team is a resource management application company which provides employment opportunities for new labor force entrants.

New labor force entrants would include people—new labor force entrants would include people with disabilities and people that are in transition and people separated from employment that are seeking retraining and new careers.

We also help create incubator-type businesses for people who have disabilities, such as Bernie, and Bernie's Mail Bag, and he will discuss that with us a little later.

Currently, we have approximately 20 employees, so you can see we are a small business. We are not that large. Of these 20 employees, about 70 percent are disabled. These employees are placed into companies and perform job tasks such as assembling and packaging, injection molding, and other various tasks and functions.

It is our goal that we are to expand this company and grow even further. However, these and other disabled employees will be dramatically affected by the proposed increase in the minimum wage. Employment opportunities for the disabled will be reduced. For us, establishing work sites for these new entrants, as a practical matter, is difficult enough without increasing the minimum wage.

By increasing the minimum wage, it will reduce Source Team's opportunity and effectiveness in placing these types of individuals into companies. An increase in price reduces demand. Therefore, by raising the price of minimum wage, the availability of jobs will decrease. Thus, placement of these people into jobs will be that much more difficult for us.

Minimum wage is the lowest salary that is acceptable to society. Although our business pays currently equal to and somewhat more than the minimum wage, I submit that an increase in the minimum wage will cause a direct and proportionate increase in the

hourly wages that our business and other small businessowners must pay. Escalating labor costs caused by an increase in the minimum wage will not affect the middle- or the upper-class workers. Rather, the disabled employees, the less-educated employees or the less-skilled employees will become the targets of this welfare plan.

If the minimum wage is increased as proposed, I will be forced to deal with government and the various wage and labor issues that would otherwise be left to us that are in a market-driven society. For example, I will now be compelled to increase employees' wages. If I do not increase an employee's wage, then the employee might leave. If that employee then leaves, I have to start the process of hiring again and training and paying additional costs. You have the additional costs and the time that is now associated with that left employee.

If we don't increase the wage and that employee then decides to stay, we have another issue involved, and that is the dissatisfaction that will occur with that employee because of his job performance and the belief that he deserves a higher increase in wage, which in turn affects the product quality and the customer service, which that also has an effect.

If additional wages are paid, then it takes money away from hiring new employees. A person is paid a wage equal to his or her contribution to that company's revenue. An increase in wages which does not come from the marketplace would cause us to potentially reduce the number of people we employ. No matter how you shuffle the deck, the disabled employees along with the less educated employees and the less skilled employees will suffer from this proposed increase.

In addition to being a small businessowner, I am a licensed attorney associated with the Law Office of Militello, Zanck & Coen, in Crystal Lake. Prior to this, I was an assistant State's attorney in the county of McHenry.

I represent several fire protection districts within the State of Illinois. Each fire district has a minimum of 40 employees. As units of government within the State of Illinois, they are subject to the real estate tax limitation law otherwise known as the tax cap. Essentially, the tax cap provides that a taxing district is limited to a yearly increase in real estate taxes of 5 percent, or the consumer price index, whichever is less. This year, the consumer price index was 2.7 percent. Real estate taxes generate 90 percent of the revenues of a typical fire protection district.

To my point, local government, such as a fire protection district, will also be directly impacted by the minimum wage increase and will be required to reduce their labor forces. A fire district's response time is very critical. If there is not enough employees to provide the necessary coverage for the district, that whole community will suffer.

What we essentially have here is a ceiling and a floor now being put into effect. When you have a ceiling, which is the tax cap, and now you have the minimum wage, which is now your floor, and you increase that floor through the increase of the minimum wage, what you basically have is the districts being squished in the middle. This is much different than the public—excuse me, than in the

private—in the private sector they obviously can increase the cost of their product.

Minimum wage is the standard by which employees in small businesses and local government evaluate their own salary and achievement. By increasing the minimum wage from $4.25 to $5.15, the Government has effectively eliminated an employee's achievement earned through salary increases. Artificial inflation of wages through an increase in the minimum wage merely supports a welfare state and suppresses a market-driven economy. I would urge that you not increase the minimum wage as proposed.

Thank you again.

Mr. MCINTOSH. Thank you very much. I appreciate your efforts on behalf of disabled Americans to try to give them a better chance at being part of the mainstream in our economy. And I appreciate you expressing your concern on behalf of those who are truly some of the least fortunate in our society but oftentimes most brave and cheerful members that I have met in my experiences.

[The prepared statement of Mr. Militello follows:]

Mr. Chairman, my name is James G. Militello III, and I am from Crystal Lake, Illinois. I would like to thank you, and particularly thank Congressman Hastert, for allowing me the opportunity to testify on the effect of a minimum wage increase on small business and local government.

I, along with two other businessmen, am the owner of a small business called Source Team. Source Team is a resource management application company, which provides employment opportunities for new labor force entrants. New labor force entrants include people with disabilities (e.g., developmental, mental or physical disabilities), people in transition (e.g., secondary and post secondary students), and people separated from employment seeking retraining and new careers. We also help create incubator businesses for people with disabilities.

Currently, we have approximately 20 employees. Of these 20 employees about 70% are disabled. These employees are placed into companies and perform job tasks such as assembling and packaging, injection molding, and other various tasks and functions.

These and other disabled employees will be dramatically affected by the proposed increase in the minimum wage. Employment opportunities for the disabled will be reduced. Establishing work sites for these new entrants, as a practical matter, is difficult enough without increasing the minimum wage. By increasing the minimum wage, it will reduce Source Team's opportunity and effectiveness in placing these individuals into companies. An increase in price reduces demand; therefore, by raising the price of the minimum wage, the availability of jobs will decrease. Thus, placement of new entrants into jobs will be that much more difficult.

Minimum wage is the lowest salary that is acceptable to society. Although my business currently pays somewhat more than the minimum wage, I submit that an increase in the minimum wage will cause a direct and proportionate increase in the hourly wage that my business and other small business owners must pay. Escalating labor cost caused by an increase in the minimum wage will not affect the middle or upper class workers. Rather, the disabled employees, less-educated or less-skilled employees become the targets of this welfare plan.

If the minimum wage is increased as proposed, I will be forced by the government to deal with various wage and labor issues that would otherwise be left for the marketplace. I will be compelled to increase employees' wages or do nothing. If I do not increase employees' wages then the employee might leave. If an employee leaves, I have to start the process of hiring and training again at an additional cost. If they stay, most likely dissatisfaction will occur due to low wages followed by a decrease in job performance, which in turn affects the product quality and customer service.

If additional wages are paid, then it takes monies away from hiring new employees. A person is paid a wage equal to his or her contribution to the company's revenue. An increase in wages which does not come from the marketplace would cause us to potentially reduce the number of people we employ. No matter how you shuffle the deck, the disabled employees along with the less-educated or less-skilled employees will suffer most from the proposed increase.

In addition to being a small business owner, I am also a licensed attorney associated with the law office of Militello, Zanck & Coen, P.C. in Crystal Lake, Illinois. Prior to this, I was an Assistant State's Attorney with the County of McHenry, Illinois

I represent several fire protection districts within the State of Illinois. Each fire district has a minimum of 40 employees. As units of government within the State of Illinois, they are subject to the real estate tax limitation law otherwise known as the "tax cap." Essentially, the "tax cap" provides that a taxing district is limited to a yearly increase in real estate taxes of 5%, or the consumer price index, whichever is less. This year the consumer price index was 2.7%. Real estate taxes generate 90%of the revenues of a typical fire protection district.

Local government, such as a fire protection district, will also be directly impacted by the minimum wage increase and will be required to reduce their labor force. A fire district's response time is very critical. If there are not enough employees to provide the necessary coverage for the district, the whole community will suffer.

Minimum Wage is the standard by which employees in small business and local government evaluate their own salary and achievement. By increasing minimum wage from $4.25 to $5.15, the government has effectively eliminated an employee's achievement through salary increases. Artificial inflation of wages through an increase in the minimum wage merely supports a welfare state and suppresses a market-driven economy. I would urge that you do not increase the minimum wage as proposed.

Mr. McIntosh. Mr. Hellgeth, I appreciate you coming today, and I am curious and very interested in hearing about Bernie's Mail Bag. I understand you have worked with Mr. Militello's group and can share from your experience how it has been helpful to you.

Mr. Militello. Mr. Chairman, if it is all right, and I have talked with Bernie, if I could read part of Bernie's statement and then leave the last paragraph for Mr. Hellgeth?

Mr. McIntosh. Certainly, and we can put the whole statement into the record as his.

Mr. Militello. Thank you.

Mr. Chairman, my name is Bernie Hellgeth, and I am from Crystal Lake, IL.

Again, I would also, too, like to thank you and Congressman Hastert for allowing me to testify on the effects of a minimum wage increase and the impact on me.

I was a small businessowner of a company called Crystal Distributors. On July 22, 1992, I suffered a stroke and became disabled. I have made substantial progress in my rehabilitation since that stroke. The need for a job in my life has become important to me.

Trying to get back into the work force has been a long and tenuous process. Source Team has helped me to establish an incubator business called Bernie's Mail Bag and market that business to various companies within the community. Bernie's Mail Bag provides mail services to companies, for example, collating, stitching, stuffing envelopes, stamping and setting tabs.

Mr. Hellgeth. It is very difficult to obtain employment when you are disabled. I feel that if the minimum wage is increased as proposed, my employment opportunities will be limited even further. I would urge you that you do not increase the minimum wage as proposed.

Thank you.

[The prepared statement of Mr. Hellgeth follows:]

Mr. Chairman, my name is Bernie Hellgeth, and I am from Crystal Lake, Illinois. I would also like to thank you and Congressman Hastert, for allowing me to testify on the effects of a minimum wage increase and the impact on me.

I was a small business owner of a company called Crystal Lake Distributors. On July 22, 1992, I suffered a stroke and became disabled. I have made substantial progress in my rehabilitation since the stroke. The need for a job in my life has become important to me.

Trying to get back into the work force has been a long and tenuous process. Source Team has helped me to establish an incubator business called "Bernie's Mail Bag" and market that business to various companies within the community. Bernie's Mail Bag provides mail services to companies for example collating, stitching, stuffing envelopes, stamping, and setting tabs

It is very difficult to obtain employment when you are disabled. I feel that if the minimum wage is increased as proposed, my employment opportunities will be limited even further. I would urge that you do not increase the minimum wage as proposed.

Mr. MCINTOSH. Thank you, Bernie, for your statement. And let me tell you, from all of us who have not been through your experience, we appreciate you coming forward bravely to join us today at this hearing. And I wish you all the best as you struggle with your recovery from the stroke, and good luck and good success with Bernie's Mail Bag.

Mr. HELLGETH. Yes.

Mr. MCINTOSH. Thank you for participating today.

Our next witness is a gentleman who is a small businessman here in Washington, DC, and president of the American Hair Braiders and Natural Haircare Association. And, again, I am going to apologize, but you can correct me, I believe the gentleman's name is Mr. Uqdah.

Is that correct?

Mr. UQDAH. That is close enough. It is Uqdah and I answer to anything reasonably close.

Mr. MCINTOSH. I have been called a lot of things in my life, too. Probably the most distorted was Mincowitz one time. So I empathize with you, and thank you for coming, sir.

Mr. UQDAH. Thank you for having me.

Mr. Chairman, members of the subcommittee, my name is Taalib-Din Abdul Uqdah. I am the co-owner of Cornrows & Co., a hair-braiding salon located in Washington, DC.

Given the direct impact of the proposed unfunded mandate on small business operations, I thank the subcommittee for the opportunity to appear before you today. I think it is vitally important that the U.S. Congress hear from small businessowners like me, giving us a voice in this process.

Over the last 16 of the 22 years I have been self-employed, I have discovered that one of the biggest obstacles to small business growth is simply Government interference. I have spent 12 of those years just fighting State governments alone for the right to operate my business in the United States free of nonsensical bureaucratic regulations, and now this, another unfunded mandate.

I oppose not only an increase in the starting wage but a mandated starting wage, period. It represents another death nail in the coffin of the U.S. free-enterprise system and makes a mockery of the notion that we can produce, manufacture, and exchange goods and services free of government regulation and interference.

Because of Federal legislation, the free-market system no longer exists. And as a champion of that system, I oppose a mandated starting wage and I most definitely oppose an increase in that wage. While forcing me to pay a mandated minimum wage with no consideration given to my business operations, market conditions, or feasibility studies, not only does the Federal Government imply its distrust of me as a businessperson but it also says that as an employer, I am not caring, capable, compassionate, conscious, or professional enough to evaluate my workers and substantiate their incomes accordingly; I must have those terms dictated to me.

This Congress is willing to risk the employment of low-skilled people, the purported beneficiaries of the proposed wage hike, for a few fleeting moments of glory in the upcoming 1996 election, an unconscionable tradeoff to the entry-level American worker.

For the people of the District of Columbia, the impact of a mandated wage hike will have implications well beyond the political grandstanding of those interested in creating feel-good election-year legislation.

First, minimum wage workers know that the more they earn, the more the Federal, State, county, and local governments will claim for taxes.

Second, while the impact of the wage hike on the take-home pay would be negligible for minimum wage earners, the impact of the mandate on employers would be substantial.

As payroll dollars increase, so does employer's cost of worker's compensation, Social Security, Medicare, and both Federal and local unemployment compensation.

Third, and this is very important, under existing law, businesses operating in the District of Columbia are forced to pay a minimum wage $1 above the Federal rate.

Currently, in the District of Columbia, unskilled employees' wages start at $5.25 an hour. If Congress mandates President Clinton's proposal to raise the starting wage by 90 cents, I would be forced to pay an untrained, unskilled worker $6.15 per hour. How can I afford to bring in an unskilled worker when for the duration of the training period they generate no revenue at all?

What if this employee leaves during the training period? What about my losses? Where is my incentive to hire an unskilled employee who requires extensive and intensive training, generates no revenue, while costing me, at a bare minimum, $50 a day?

Having lived under the District's mandated $5.25 an hour minimum wage law since October 1993, I am here with expert testimony that says I have not, cannot, and will not hire unskilled applicants at any minimum wage that is not in keeping with good, sound business practices.

The cost of their employment would be too great a burden for my business to bear. It would be, and has been, more cost effective for me to hire a skilled worker, pay them more than the unskilled worker, and watch as the skilled employee generates at least three times the revenue that an unskilled employee ever could.

Further, the mandated starting wage implies that competitive marketplace economics does not work, and that is simply not true. In every industry, there is a compelling need to keep qualified employees and quality employees paid based on their productivity and worth, not some arbitrary number selected by politicians.

I started all of my employees at the minimum wage. After a training period in which they increased their skills, I increased their salary. Now, all of my employees earn well above the minimum wage.

The point is, I increased my employees' salaries not because the Government commands me to do so, but because my employees earn their salary increases. I and other employers don't need this Congress or the President of the United States micromanaging our businesses.

The question now becomes, where is my feel-good legislation? Where are the incentives and initiatives that induce me to hire more workers, open more establishments, invest in the District's stagnant economy?

Since there are those who think they can run my business better than I can, here are my keys. My business is now theirs.

Now, what are they going to do to make this increase; should there be one, more palatable for the small business owner already besieged by taxes and burdensome legislation? A federally mandated minimum wage implies that without the Government's interference, the American worker earning the starting wage would be at risk.

It further views me as some cold, heartless, money-grubbing tightwad who has become the scourge of the Earth, looking to rip off my dim-witted counterpart, the minimum wage earner, at my every opportunity; that I purposely go out and seek to gain the most for the least, always looking for the upper hand; and that the role of my Government is now that of a protector of poor Little Red Riding Hood from the Big Bad Wolf. Well, Little Red Riding Hood may have had a job and been at work instead of out frolicking in the woods if the Federal minimum wage had not been mandated.

Please don't misunderstand me or misconstrue my comments. I am not saying, nor am I suggesting, that this new wage-hike proposal has started this country down the road to economic ruin. No; I am not saying that at all. That clearly started when the first Congress decided that it had to regulate businesses in this country.

However, what I am saying is this: We need a system that supports a free-market economy and increases business growth, opportunity, and employment for all Americans. I urge this subcommittee and this Congress to oppose an increase in the minimum wage.

Again, I thank the subcommittee, and I look forward to answering any questions that you may have.

Thank you.

[The prepared statement of Mr. Uqdah follows:]

Mr. Chairman, members of the subcommittee, my name is Taalib-Din Abdul Uqdah. I am the co-owner of Cornrows & Co., a hair-braiding salon located in Washington, D.C.. I thank the Subcommittee on Regulatory Affairs for the opportunity to appear before you today. Given the direct impact of the proposed unfunded mandate on small business operations, I think it is vitally important that the United States Congress hear from small business owners. I appreciate the Subcommittee giving small businesses, like mine, a voice in this process.

I started my business, Cornrows & Co., in June 1980 with $500, a 4-year lease on a building owned by someone else, and three employees. Today, I employ 12 full-time people, including my wife and myself, two part-time people and I have consistently grossed approximately $500,000 annually. My most crowning achievement is that I now own a 4,000 square foot building, and it is valued at over $400,000.

I have been self-employed for 22 years. Over the last 16 years, I have discovered that one of the biggest obstacles to small business growth is government interference and micro-management. I have spent nearly 12 years fighting state government's for the right to operate my business in the United States, free of nonsensical bureaucratic regulations. And now this: an unfunded mandate.

For this and a host of other reasons to follow, I oppose an increase in the starting wage. The proposals by President Clinton and members of Congress to increase the starting wage creates another hurdle for small business growth. It represents another death nail in the coffin of the United States' free enterprise system and makes a mockery of the notion that we can produce, manufacture, and exchange goods and services free of government regulation and interference. Because of federal legislation, the free market system no longer exists. As a champion of that system, I oppose a <u>mandated</u> starting wage. And I most definitely oppose an <u>increase</u> in the starting wage.

The government should protect free enterprise, not hinder it. Has this Congress or the Clinton Administration given any thought to the consequences of their "feel good" legislation on the small businesses that create America's job opportunities?

By forcing me to pay a mandated minimum wage, with no consideration given to my business operations, market conditions or feasibility studies, not only does the federal government imply its distrust of me as a businessperson, but also, the government risk the employment of low-skilled people - the purported beneficiaries of the proposed wage hike.

For the people of the District of Columbia, the impact of a mandated wage hike will have implications well beyond the political grandstanding of those interested in creating "feel-good, election year" legislation.

First, minimum-wage workers know that the more they earn, the more federal, state, county and/or local government's will claim for taxes. The impact of the wage hike on the take-home pay of minimum wage earners will be negligible.

Second, while the impact of the wage hike on the take-home pay would be negligible for minimum wage earners, the impact of the mandate on employers would be substantial. As payroll dollars increase, so does employers' cost for worker's compensation, Social Security, Medicare, and both federal and local unemployment compensation.

Third, under existing law, businesses operating in the District of Columbia must pay minimum wage employees $1 above the federal rate. Currently in D.C., unskilled employees' wages start at $5.25 an hour. If Congress mandates President Clinton's proposal to raise the starting wage by $0.90, I would be forced to pay an untrained, unskilled worker $6.15 per hour.

How can I afford to bring in an unskilled worker, when for the duration of the training period, he or she generates no revenue? What if this employee leaves during the training period? What about my losses? Where is my incentive to hire an unskilled employee who requires extensive and intensive training, generates no revenue, and costs me a minimum of $50 per day?

The District of Columbia's current starting wage -- at a rate higher than the federal mandate -- already forces me and other employers to close the door on applicants unqualified to do the job at $5.25 an hour. Are these applicants more qualified at $6.15 an hour?

An increase in the starting wage will not benefit low-skilled workers. To counter the starting wage increase, small businesses, like mine, will not hire low-skilled workers. Some employers may even reduce current employee hours or raise prices. All of these effects risk the livelihood of the low-skilled worker, again, the "ghostly" beneficiary of a wage increase.

I cannot afford to hire unskilled applicants at the minimum wage. The cost of their employment would be too great a burden for my business. It is more cost effective for me to hire a skilled worker. Pay the skilled worker one and one-half times more than the unskilled worker, and watch as the skilled employee generates at least three times the revenue that an unskilled employee could.

A federally mandated starting wage does not work. Bureaucrats should stop imposing artificial wage rates on businesses. The unemployment effect that results from an increase will be concentrated on the most disadvantaged of the work force -- unskilled, at-risk youths.

Further, the mandated starting wage implies that the marketplace does not work. This simply is not true.

In every industry, there is a need to keep quality employees. And quality employees are paid based on their productivity and worth, not on an arbitrary number selected by politicians.

<u>I started all of my employees at the minimum wage.</u> After a training period in which they increased their skills, I increased their salary. Now all of my employees <u>earn</u> well above the minimum wage.

Know this: <u>I</u> increase my employees' salary, not because the government commands me to, but because my employees <u>earn</u> their salary increases. I and other employers do not need the government to micro-manage our businesses.

Small businesses, like mine, generate jobs. Yet, ever-increasing tax rates and regulatory burdens already destroys incentives for small business creation in cities. Increasing the minimum wage undoubtedly increases the tax and regulatory costs of business operations. As any economist knows, increasing the regulatory and tax burden of small businesses will make economic growth for the District or any municipality nonexistent.

Where is the "feel good" measure for business? Where are the incentives and initiatives that induce me to hire more workers, open more establishments, invest in the District's economy? What is being done to make the wage hike more palatable for the small business owner already besieged by taxes and regulations?

The wage hike proposal did not start the United States down the road to economic ruin; no, that started when Congress decided it had to regulate businesses in this country.

I was led to believe by the Clinton Administration and members of Congress that the era of big government was over. I do not see an end to big government.

We need a system that supports a free market economy and increases business growth, opportunity and employment for all Americans. I urge the U.S. Congress to oppose an increase in the minimum wage.

Again, I thank the Subcommittee and I look forward to answering any questions you may have.

Mr. McIntosh. Thank you very much, Mr. Uqdah.

I look forward to talking with you during the questioning period about your work with many of the at-risk students and youth in the District of Columbia. You have made one of the most eloquent statements on the benefits of free-market capitalism for all us in our society, and I appreciate you coming forward to make that.

Mr. Uqdah. Thank you.

Mr. McIntosh. Our next witness on this panel is Ms. Gail Robbins, who, along with her husband, owns a Pizza Inn franchise in Greenville, SC.

Welcome, and thank you for sharing your testimony with us, Mrs. Robbins.

Ms. Robbins. Mr. Chairman and members of the subcommittee, I appreciate the chance to appear today on behalf of myself and the National Restaurant Association.

My name is Gail Robbins. Nine years ago, there was a Pizza Inn restaurant franchise in Greenville, SC, about to go out of business. I offered to take over the restaurant's loan, and my husband and I have owned the place ever since. I employ 23 hard-working people.

I once employed a young African-American man who made pizzas for our customers. One evening, when we were working in the kitchen together, he came to me and said, "I love this job." When I asked him why, he said, "Because it keeps me off the street."

I thought that what this young man said explains better than anything why I'm here today. As a matter of fact, I think my employees ought to be here testifying, not me. If the starting wage is increased, I know that a lot of people around this country who could be making pizzas and learning work skills will instead be on the street.

I pay all my employees more than the starting wage. If the starting wage goes up, I won't lay off anyone, but because I only have a profit margin of about 4 percent, I will make changes that might not show up on the Government's economic reports the next day or the next month. I will wait until someone moves on to another job, and then I won't hire someone to take over her place. I will schedule servers for fewer hours, and I will see if I can save money on labor costs some other way, like buying my broccoli and cauliflower precut instead of having one of my kitchen workers cut it up herself.

When you terminate one of these positions, you terminate an opportunity. I know from experience what a lifesaver the right opportunity can be. My life became intolerable, and I left home at 15. I simply would not have survived had it not been for the people willing to give me the opportunity to work, first as a dime store waitress and then as a truckstop waitress.

I ended up in New Jersey and got a job making 47 cents an hour as a waitress at a Howard Johnson when I was 19. The people at this Howard Johnson took me under their wing and became my new family when I needed one desperately. They were my employers, my friends, my family, and my mentors. They told me that if I had a good attitude and worked hard, I would turn things around. They told me I didn't need to have experience, I needed to

get experience. They told me I didn't need to know about business, I needed to learn the business.

As you can see, I did turn things around. Forty years later, I own my own successful restaurant, and I am pursuing a college degree in business and economics. Now I'm trying to turn things around for a lot of people who need an opportunity to improve their lives.

About 4 years ago, I was taking a class, and one of my fellow students, a young woman who had a learning disability, didn't read very well, so I chipped in half the cost of an electronic dictionary for her. I wanted to help her help herself. Well, she remembered me and came in the store after the semester and told me she needed a job in order to complete her nursing degree. She is a single mother of three who receives food stamps and Medicaid from the Government, but I have helped her to become more and more independent. I gave her a job preparing the salad bar, and now she is doing some cashiering. Last week, I asked her how long she wanted to work, keep working for the restaurant, and she said, "As long as you will let me, Miss Gail."

This is how my business works. If I hire someone and they are an asset to my company, I will keep them and promote them and pay them well above the starting wage. All the while, that will cost the Government less and less in reduced welfare assistance.

I hired a 16-year-old in 1990 to fill a starting wage job washing dishes. She supplemented her income with some money from the earned income tax credit. All the while, she worked hard and learned what she needed to learn, and now she is the assistant manager, supervising all the other employees and making sure everything runs smoothly. She is only 22 and no longer relies on the earned income tax credit because her wages have steadily risen.

What all these people have in common is that they are receiving the best kind of job training available, on-the-job training. They are receiving the kind of training I received at Howard Johnson four decades ago, training in life. And raising the starting wage isn't going to help me provide this kind of training.

I think instead, we need to do something about the welfare system. I was talking to a person working with the Employment Commission the other day, and he said some of these people with whom he deals are second- and third-generation welfare recipients. He said a lot of them are completely unfamiliar with the importance of showing up to work on time, helping out with whatever is necessary, and dealing with customers.

Maybe we can do more to move people off of welfare and teach them these skills. I know that in some States, welfare offices are starting programs where the Government pays the wages of welfare recipients during the first weeks of their jobs. People learn workplace skills for a while at no cost to the employer and then secure a paid job with that business or another business when the grace period is over. This is something I hope we can try in South Carolina and try nationwide. Or we could give a tax credit to employers who hire the people who are the most disenfranchised from the work force.

But I think there is only one thing we can give our young people today that is more important: opportunity. I want all my employees to know what they can become if they work hard.

I keep a magazine article describing the story of my life on a bulletin board in my restaurant. I remember when one of my dishwashers asked me why I never mentioned money in the article. He wanted to know why I never said, I am successful now because I am earning a lot more than I did when I started.

Well, I told him it is about more than just money. It is about opportunity. Let me keep these kinds of opportunities by keeping the starting wage at its current level.

Mr. MCINTOSH. Thank you very much, Mrs. Robbins.

Ms. ROBBINS. Thank you. I would like to apologize because I did not face you. I faced the empty people up here.

Mr. MCINTOSH. That's quite all right.

Ms. ROBBINS. Because this is where my message needs to go.

Mr. MCINTOSH. Thank you. I share your desire.

You all have come forward today and given us testimony about the effect of raising the minimum wage on real people, real people who are on welfare, real people who are struggling to earn a living, real people who are disadvantaged in this society. And I want to say thank you for the opportunities you have created for people in your businesses.

Let me ask Mrs. Rane and Mrs. Robbins, how many people do you think you have given a start with the minimum wage job over the lifetime of the businesses you have owned?

Ms. RANE. Well, I do all the W–2's for our business. We go through about 150 employees a year. So over 15 years, there is, what, 1,500 employees? I would say out of those employees, the majority of them are in high school or going to college. There is probably only about maybe a third that are in the middle, where they are not living with a parent and they are not going to school, and they are trying to earn a living on their own. But out of those, many of those are the ones that are our managers and crew leaders.

Mr. MCINTOSH. That really go on to take advantage of the opportunity?

Ms. RANE. Yes.

Mr. MCINTOSH. How many would you estimate, Mrs. Robbins?

Ms. ROBBINS. I don't really know because my husband does my books, and my accounting, but I tell these young people when they come to get their job that if they stay with me that they are lucky to have me because I have high standards, and I give them the right—the right equipment to go on to other jobs and do a good job, and because probably I came up hard and I was poor. There is a lot of knowledge in being—having life experience.

Mr. MCINTOSH. There is a lot to be learned from that.

Both of you mentioned the opportunity for people who are on welfare or benefited from the earned income tax credit, and Mr. Baisch, you mentioned that you struggled when you were first employed and as you moved further along in the advancement, and that it—at various times it almost appeared that the welfare system was holding you back.

And I was going to ask you, in your opinion, do you believe that the caseworkers and the people who administer our welfare system encourage young people to take a job and become self-sufficient, or does it work against you?

Mr. BAISCH. Well, I feel I was being kept back when I wanted to become a manager because they, you know, cut my benefits back. I am like lost with words here. I just feel that the welfare system, you know—they ask you to get out there and work, but you can make more money actually being on welfare than you can working because—that is the way I feel.

Mr. MCINTOSH. Do you think—you obviously chose to work rather than get more money and being on welfare. Are you glad you made that choice?

Mr. BAISCH. Yes, I am. I would rather, you know—the way my dad taught me, wherever there is a will, there is a way.

Mr. MCINTOSH. You certainly have the will.

Mr. BAISCH. Yes.

Mr. MCINTOSH. What would you say as advice to people around the country who are struggling with this? What would your advice to them be?

Mr. BAISCH. Just to keep trying. You know, wherever—there are jobs out there. Just keep trying, you know. I have been on my own since I was 15 years old. My family, you know, was on welfare all their life, too, and just keep trying and just keep working toward what you want to be.

Mr. MCINTOSH. Now, let me ask you, because in Congress we have to make tough choices, and I think the evidence today is the choice we are being asked to make is to increase the minimum wage and help some people to have more take-home pay, but at the expense of costing some job opportunities, and so that some people like yourselves who want to start working won't be able to find some of those entry-level jobs.

Do you have any advice for us in those tradeoffs?

Mr. BAISCH. I would just say, you know, just be honest with yourself, and just keep working hard, and you can work up from where you start out to keep—I proved myself in 3 years, and I am a manager now from being an employee.

Mr. MCINTOSH. So it can be done.

Mr. BAISCH. It can be done.

Mr. MCINTOSH. Let me ask all of the panelists today, and I described earlier in the first panel an alternative that we have been working on—actually, it looks like my time is expired, so I will come back on the second round of questions and ask you what you think about that alternative, which is essentially a tax cut whereby the employees get paid all of their earnings, and there is no withholding for them, and the employer does not have to increase their cost to get a real take-home pay increase.

But let me come back to that in the second round of questioning.

Let me turn now to my colleague from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

The first question, I guess, for Mrs. Rane or the gentlelady who is in the pizza business, I think there is a misguided perception right now that the fast food business is an enormously profitable business. Can you talk a little bit about the margins? You said you have been in business for 15 years. Is it tougher today than it was 15 years ago?

Ms. RANE. Yes. My profit margins have dropped about 4 percent, mainly in labor. When we first started, an acceptable percent for hourly labor, that is not including their fringe or any of that sort of benefit, but just pure hourly labor was—the standard was 12 to 13 percent of your sales. Now, it is 15, 16; it is going up to 17.

Mr. GUTKNECHT. So if the minimum wage goes up, that percentage will go up even more?

Ms. RANE. Yes. So we are absorbing some of that in our profits, besides laying off people, and besides raising prices. We are doing all three in combination.

Ms. ROBBINS. Our profit margin was 4 percent last year, because right before I came here, we checked. It was 4.24. But I think the year before it was a little bit better.

But we have been in business 10 years, and my dream is to help minorities or people who have had a hard time in life become part of the business and maybe do more stores, but we haven't been able to really get ahead because our margins are so low that we just actually keep ourself in business. And my husband and I work in the store, so we can alleviate some of the costs because we do work in the store.

Mr. GUTKNECHT. Mrs. Robbins, I do want to share one of the things that you said earlier. And it is unfortunate that some of the members who maybe need to hear this testimony the most are not in their seats today. It seems to me that perhaps we have—the Congress has sort of—we are about to buy into this notion that there are no consequences to this decision, that we can somehow grant this pay raise and that there won't be a consequence. And unfortunately some of the people who are supporters—the strongest supporters—and I must confess I am still somewhere in the middle on this. I haven't decided how I am going to vote on the issue. It depends on how it is framed and what all is included, and I suspect that negotiation is going on at levels above my pay grade, but I also apologize that more of our members aren't here to hear this testimony.

Mr. Uqdah—I am not sure if I am pronouncing that name correct—I was especially interested in yours because, as I mentioned earlier, I serve on the Washington, DC, Oversight Subcommittee, and you seem to be saying that Washington, DC, has created for itself even worse problems than we might have otherwise. Can you talk a little bit more about some of the economic problems here in the District and how, at least from your perception, the minimum wage has played a role in that?

Mr. UQDAH. Back in 19—early 1993, the District entertained legislation to automatically raise the minimum wage in the District $1 above whatever the Federal minimum wage is. That law is still in effect.

The point I was trying to make is that since October 1993, I have been at $5.25 an hour. What I have had the opportunity to do since October 1993, is to take a look back at, at least, 45 applications that I accepted for the majority of the positions in my own business. Of those 45 people, since October 1993, I only hired 2. Forty-three of them I didn't hire at all because I could not afford to pay them $5.25 an hour, and so that the mathematics is real simple. I have people who are more skilled, who earn anywhere from

$14,500 to $19,000 a year, but who generate $60,000. If I bring in an unskilled individual, I am going to pay them roughly $13,000 a year, but they are only going to bring me in $20,000.

I mean, the mathematics is quite simple. So what I have had to resign myself to is bringing in more experienced folk. What I have personally done is I have written to members of the City Council Labor Committee asking them to repeal this legislation, because, quite frankly, $6.15 an hour is not something that I am looking forward to. I can tell you now, I will not hire anyone that is unskilled that does not have the ability to be able to come in and immediately be able to service my customers.

Mr. GUTKNECHT. Is it fair to say that you speak for an awful lot of small businesspeople?

Mr. UQDAH. A lot of small businesspeople, outside of the salon businesses. I have talked to auto body repair people, those folk who hire high school students to do some of the cleaning and some of the labor work around their mechanic shops. They can't afford to pay anybody $6.15 an hour to train them how to do something. They will just find other ways to get the job done.

Mr. GUTKNECHT. So your conclusion is, if we raise the minimum wage, it will actually make things worse for the District of Columbia?

Mr. UQDAH. There is no question.

Mr. GUTKNECHT. Thank you.

Mr. MCINTOSH. Thank you, Mr. Gutknecht.

Let me turn now to our colleague from Arizona, Mr. Shadegg.

Mr. SHADEGG. Thank you, Mr. Chairman.

I don't know that I have any questions for this panel, but I want to say a few things. I was elected to Congress for the first time in this last election in November. I began serving here in January a year ago. In the time that I have been in the Congress, I have watched a lot of panels come before us and testify. I have listened to people as educated as Alan Greenspan and as diverse as Bruce Babbitt, the Secretary of the Interior. In my entire tenure in the U.S. Congress, I have never heard a panel as substantive, as eloquent, and as knowledgeable as this panel.

Mrs. Rane, Mr. Baisch, Mr. Militello, Mr. Hellgeth, Mr. Uqdah, Mrs. Robbins, you have done, if America will listen, a tremendous service. Your eloquence, your brilliance, your courage in coming forward, to me is a message that every American needs to hear.

They tell us, as Members of the Congress, particularly as Members of the Republican majority of Congress, we ought not to fight this issue. Seventy to eighty percent of all Americans believe an increase in the minimum wage is a good idea.

I would beg C–SPAN to play the testimony of this panel over and over and over again. If there is any justice in America, NBC and CBS and ABC and C–SPAN and CNN will play bits of each of your statements. You are each so knowledgeable.

Mr. Uqdah, I do not know whether you have a graduate degree in economics, but I can assure you you could teach every Member of this House of Representatives and every Member in the U.S. Senate a lesson in economics. Your testimony today about the effect of the minimum wage on your business and about the economic regulation of your business, about its impact on the District of Co-

lumbia—I wanted to ask you what the unemployment rate is in the District of Columbia. I will bet you that with the laws that are in place, it is higher than other places nearby, and that you could, at least, avoid that extra dollar by moving to Virginia or Maryland and may, indeed, if we arbitrarily government mandate a $1 increase in the minimum wage, a political solution to make ourselves feel good, which will hurt those young people at the bottom rung of the economic ladder, you may indeed well do that.

It seems to me that I wish that every single Member—if I could just have one wish in this entire Congress on this issue, it would be that every single Member of the U.S. House of Representatives be forced to listen to just your testimony.

Mrs. Robbins, I didn't quite understand why you kept looking that way through your entire testimony. I didn't know if that was because the paper was set off to that side. It is to me an absolute outrage that not a single Member of the minority, not a single advocate, Republican or Democrat, in this Congress of this stupid idea of an increase in the minimum wage, came and listened to your eloquent testimony. For all of the people, and I don't know—you couldn't see it. There are 50 people that walked into this room after your testimony. I hope they will all go home tonight and watch C–SPAN and see this testimony when it is reaired. Every American, from this one panel alone, could learn a simple economics lesson and would understand why the proposal to raise the minimum wage is nothing but pure good—as you said it, Mr. Uqdah, feel-good politics. You are eloquent.

Mr. Hellgeth, your courage in coming forward and speaking on behalf of the handicapped and the disabled who need entry-level jobs, I cannot tell you how much I appreciate it. It is obvious the courage and the difficulty it took you to come forward.

For each of you that creates jobs, for each of you that came here, for each of your eloquent statements, I say thank you, and I will tell you that I am personally going to do what I can to force the 20 or 21 members of my party who believe in this dumb idea to listen to what you have had to say today because it was marvelous.

Ms. ROBBINS. Sir, I would like to say something. There is a song Simon and Garfunkel used to sing. It was from "The Boxer." And it says "A man only hears what he wants to hear, and he disregards the rest."

Well, we didn't even get the respect of these people to come and listen to us, and we have a lot of small—we have a lot of problems in the small business world. Sometimes our turnover at some of our restaurants are 300 percent a year. We hire people that only stay 4 days a week.

I do not know why the minimum wage is on the table, because—I honestly don't. Most people, Myrtle Beach, SC, entry level is $8 an hour. Greenville, it is more than minimum wage.

There is—a young man came to me for a job this weekend. His mother actually came and got the application, and I hired him because he—his mother came. But he filled out the application and told—on the application, it said he entered the work force at 17, or maybe it was 16, at $6 an hour. He left that business at $6.50 an hour, and I told him, I said, I can't pay you that. I said, I will start you at $4.75, and then we will talk about it in 2 weeks. But

the funny part about it, the restaurant he left—he has been out of work, I think, for about 6 weeks because it went out of business, and it is a major chain, too.

Mr. SHADEGG. There is a reprint of—United Technologies puts out reprints of various aphorisms that I have framed and put in my office. One of them says, if 10,000 people believe in a dumb idea, it is still a dumb idea.

Raising the minimum wage is, in fact, a dumb idea.

Mr. Uqdah, I will tell you that if the Dole campaign has any sense at all, they will hire you to be a national spokesman on the issue of the free market between here and election day because you are an eloquent spokesman for the free market and for what made America great. Your statement alone should win this debate today. I just want to thank you all.

Mr. UQDAH. If it happens, sir, I will hire you as my manager.

Mr. MCINTOSH. There is always another life, isn't there?

I can't agree more with what my colleague Mr. Shadegg has said today and want to second that.

Even—as I will point out once again, even President Clinton last year realized, as he put it, it is the wrong way to raise the incomes of low-wage earners.

And it is time that we put politics aside and try to do what is right for all Americans in this country.

Let me now, in the second round of questioning, ask you about this alternative proposal that we are trying to work on. I am not 100 percent sure we are going to be able to vote on it because it is so new, and frankly it is one of those ideas that makes so much sense that it is sometimes hard to get people in Washington to understand. But the idea is, instead of mandating an increase in the minimum wage, we increase people's take-home pay by not taking their taxes out, letting them take that home in their salary. The businesses don't have to increase their costs, so they can continue to make the same hiring decisions, and we reduce welfare by about 10 percent to make up the revenue loss.

Let me ask each of you, and I will start with you, Mr. Uqdah, Do you think that is a good idea? Do you have any suggestions, refinements? What is your comment?

Mr. UQDAH. I have had this discussion very preliminarily with some other folk. I am being very cautious about it because the devil is in the details. I could support something like that. The problem that I see, and I think you spoke to it earlier, is that it is too much like doing right, and I don't expect for this body as a whole to do the right thing. It is too much right about the proposal. It will work for everybody.

Obviously I can support it from an employer's standpoint if it is not going to increase my bottom line. I think it is a great proposal for those people who find themselves at the minimum wage. I would question whether or not folk are truly interested in any sort of real welfare reform. Do we really want to get these people off of the welfare rolls?

I think at the same time—and I think this committee needs to hear this—I am caught between a rock and a hard place right now, and you had alluded to this thing earlier. I have been asked by some kids that I work with—and when I say kids, I'm talking

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about youth between the ages of 15 and no older than 17 years old—to start a business for them. And I want to do this. I am prepared to do this.

What I am not prepared to do is to start them off—and this is going to be a lawn maintenance business—to start them off at $6.15 an hour. The proposal that you have introduced here, where they would see more of their take-home, where I will see less cost to me, that is less labor costs to me, if it could be done within the next couple of weeks, I would be right down here at your office every day supporting that proposal, because they are ready to go to work. They are ready to do something.

I am hesitating now because I am not sure—and I may take the Congressman's suggestion and just move into Maryland and Virginia, where the minimum wage is lower, find an address there that I can use for that business so that I am not subject to $5.25 an hour. I just couldn't do it.

Mr. McINTOSH. Are those some of the at-risk youth here?

Mr. UQDAH. I am sorry. I work with kids who have been adjudicated through the court system. There is no question about them being at-risk. They have already been adjudicated through the court system. They are not bad kids, but they just need opportunities, and as a businessman, I am in a position to do that. In the last 16 years I have hired over 300 people. Of those 300 people, 12 of them have gone on to open up their own businesses. They are now hiring other folk.

Mr. McINTOSH. It is a lot better record than the welfare office, I will tell you that.

Mr. UQDAH. A whole lot better, and I hope to be able to continue that.

Mr. McINTOSH. You provide the hope for those young people the same way the family in New Jersey did for Mrs. Robbins four decades ago.

Mr. UQDAH. No question.

Mr. McINTOSH. What I am hearing you say to us today is if we raise the minimum wage here—and in the District of Columbia, you have to go up to $6.15 an hour—you won't be able to provide that hope for those young people because it just doesn't make sense economically.

Mr. UQDAH. It won't. I mean, what I will have to do is I will have to look for more skilled folk. Because I have got more skilled folk, I am going to have to pay them more money. Because I am paying them more money, I am going to have to charge more money.

I don't want to make this process so convoluted. That is why I try to keep it as simple as possible. It is A through Z. You can take it one step at a time. It is a true domino effect. I don't know—I don't want to give you some theory of economics that just boggles the mind. That is why I am trying to keep it as basic as possible.

Mr. McINTOSH. Common sense dictates the outcome. Thank you. I am going to ask unanimous consent if I can go through the rest of the panel on that same question about the alternative.

Ms. Robbins, have you any alternative?

Ms. ROBBINS. I am not sure I understand yours because I think I have got yours mixed up with Mr. Hutchinson's, and I think his—or maybe my husband says I have it mixed up, but anyway, if you

pay people that earned income tax credit, they get it in one lump sum at income tax time. If you give these people this wage every week, they would be much better off because when you get one lump sum of money, you go out and spend it, then you don't have anymore.

In my business I have seen this happen many times with people so I would really like to see systems set up like the National Center for Neighborhood Enterprise. I think they go into low-income areas and help people out there, because we definitely need something. We don't need a minimum wage when we don't need it. We don't need a minimum wage.

Mr. McIntosh. Because the marketplace takes care of it.

Actually, the proposal is combining my idea of increasing each week the take-home pay with Mr. Hutchinson's idea of the earned income tax credit, but I will share with him your insight that if you could spread the earned income tax credit out over the paycheck as well or part way over the year. That is an even better way to do it.

When you fill out an employee's pay stub, and I have got an intern in my office in Indiana who repairs Harleys and he handed me his pay stub when he was working at minimum wage. He worked a little bit less than 20 hours, made a total of $83 and some change. When you took out the FICA tax, the Federal withholding tax, and the State tax, he got to take home $68 and some change.

My proposal would be to, say, let you pay that FICA tax directly to your employees, let you pay the withholding on the income tax, the withholding directly to the employees, and the take-home pay would end up being $86 and some change. Because you also pay some FICA tax that the employee never sees, on the pay stub. Therefore, each week it would be about a 20-percent real increase in their take-home pay. It wouldn't cost you, the employer, any more money because you are simply not paying the taxes to the Government, you are paying it to the employee, and we would figure out a way of crediting their Social Security so they don't lose any credit on that by taking from the welfare program and crediting it into the Social Security trust fund.

What we are doing is combining that idea with the Hutchinson's on the earned income tax.

Ms. Robbins. I think that would be better.

I would like to tell you something. When I was 51, I went back and got my GED. I was watching the Government on television and I decided I would go to school and get a degree in economics and business to find out where all my tax dollars were going after I became a small businessperson. That is basically why I am here. And right now I think the percentage is 45 percent taxes that we pay overall, State, gas, sales, everything, but we really need to reevaluate the system because it seems like we hurt the people we try to help and even with the taxes. Thank you.

Mr. McIntosh. Thank you.

Mr. Baisch, do you have any suggestions? Do you think it would be a good idea to let people take home their whole paycheck?

Mr. Baisch. It sounds like a good idea. I don't know much about the subject, so I am going to pass and let the employer talk about it.

Mr. McINTOSH. Mrs. Rane.

Ms. RANE. I understand your proposal and I understand Mr. Hutchinson's. I think they are both good proposals, but I don't know if they limit the amount of children you have. I don't support anything that encourages you to have children to get more benefits.

I think if young, working Americans are going to be on this program they should have some kind of education on how to—how important it is to be honest in their job, how important it is to show up to work on time, how important it is to work while they are there and not stand around and talk. These are things we deal with every day.

I get a lot of kids that come in, they learn from other employees or other friends that they can go on welfare and they don't have to work. These people don't have any work ethics. Why isn't the welfare system teaching them or having somebody like Don come in and talk to these people on welfare and say, I did it, you can do it, too? That is what we need more of, is to encourage these people. The upbringing they have they don't know what it means to be honest or how it feels to be proud of yourself to do something for yourself.

Mr. McINTOSH. There has got to be—it won't do any good, is what I am saying, unless there is some kind of education with it.

As Mrs. Robbins pointed out, those are lessons in life and you learn those lessons in life when you are working and when somebody has confidence in you and gives you the responsibility to do a job, to take responsibility for managing other people.

Ms. RANE. My point is you can—we can only help that person so much. I mean, when they are stealing from you, even though you know they have got kids at home that are hungry, you can't let them keep working for you. You have to say, I am sorry, I can't employ you. It is a hard decision to make.

Mr. McINTOSH. Thank you.

Mr. Militello and Mr. Hellgeth, do you have any views on this alternative tax credit?

Mr. MILITELLO. This alternative program that you propose, it is a win-win opportunity for both the employer and employee as you have proposed it. One caveat I would say is I would have the same hesitation as this group as far as the details of it and how the funding and the rest of it would be managed, but as to the program as it is presented today I could see it as a win-win opportunity here. You have an employee who is now—you have just increased their wages. As a result of that, you are going to have better job performance out of that person; you are going to have better quality control issues, better customer service relations. From an employee standpoint, the product and the relationships are going to be that much better off.

The employer's standpoint, which is the other side of the coin, is what you are saying. There are going to be no additional costs there. If there are no additional costs there, the employer is going to be happy with that program as well as it is going to trickle down through the rest of the business and hopefully that will carry around to the industry as well. My caveat is the details of the program and how it would be funded.

Mr. MCINTOSH. You are wise to be checking into the details. We have noticed in a lot of the regulatory programs the devil is in the details. I think we are working those out and trying to get them to go forward.

Mr. Hellgeth, did you have anything you wanted to add to that? OK.

Well, Mr. Shadegg or Mr. Gutknecht, do you have any further questions for this panel?

Mr. GUTKNECHT. Mr. Chairman, I don't have any further question. This has been a very, very interesting panel and I wish more people had a chance to listen. In some respects it just reminds me of something that I think Thomas Jefferson said over 200 years ago. He said that those who would trade freedom for security will lose both and deserve neither. This really is a fundamental debate between those that believe the Federal Government's response is to guarantee opportunity and those that believe the Federal Government's responsibility is to guarantee this minimum welfare State system. It is a fundamental debate and it is a difficult one. It is particularly difficult I think because despite your best efforts, and the best efforts of a lot of good economists who have shared some pretty good information, the people we work for, 78 percent of them at the last poll say we ought to raise the minimum wage. I don't know if there is time to get the information out to the American people to at least dissuade them. It is very difficult for those of us on this side of the table.

Do you want to add something?

Mr. UQDAH. I want to add something. The problem in the debate is the economists are not the people that are paying these people, we are the people sitting here. This is the first opportunity any of us have had to speak. We have talked to each other and we have talked to our partners and our associates and our accountants and our lawyers, but I am the person that signs the checks. I am the person that pays the money.

I don't care what an economists says, he is wrong. If he is not in business—ask an economist that has employees. That is who you need to ask, someone who has a business like an accountant. He can tell you. Anybody else, it is not worth even listening to them. They don't know what they are talking about. We are the experts. Thank you.

Mr. MCINTOSH. You are the experts and I want to again say thank you for coming forward. Too often in Congress we don't hear from real people on the front lines who are trying to create these jobs and provide opportunities.

As we call forward the next panel I am going to take a 90-second recess from the Chair and personally thank each of you for coming in today. This has been one of the most moving and important panels I have seen during my days in Congress. I would ask the next set of witnesses to come forward, please.

We will be beginning the third panel of the hearing. If I could ask each of the members of that panel to go ahead and take your seats up here at the table, the third panel, and this is a tough job for them after that last panel, four professors of economics who have differing views in general about the world, and they are here to share with us their insights and testimony about this issue.

Could I ask Todd Gaziano to come up here for a second, please? If I could ask each of you, with the exception of Professor Welch, to please rise.

[Witnesses sworn.]

Mr. MCINTOSH. Let the record show that each of the witnesses answered in the affirmative.

Our first witness on today's third panel is Professor Finis Welch, who is the distinguished professor of economics and Abell Professor of Liberal Arts at Texas A&M University.

Welcome, Professor Welch. Thank you for coming today.

STATEMENTS OF FINIS WELCH, DISTINGUISHED PROFESSOR OF ECONOMICS AND ABELL PROFESSOR OF LIBERAL ARTS, TEXAS A&M UNIVERSITY; KEVIN M. MURPHY, GEORGE PRATT SHULTZ PROFESSOR OF BUSINESS ECONOMICS AND INDUSTRIAL RELATIONS, UNIVERSITY OF CHICAGO; WILLIAM A. NISKANEN, FORMER ECONOMIC ADVISER TO PRESIDENT REAGAN, AND CHAIRMAN, CATO INSTITUTE; EDWARD MONTGOMERY, PROFESSOR OF ECONOMICS, UNIVERSITY OF MARYLAND

Mr. WELCH. Thank you, Mr. Chairman. I appreciate the opportunity to testify.

I would like to begin by pointing out that even though we heard from a group of employers a moment ago that the alternatives available to them following an increase in the minimum wage were starkly different than the alternatives available to someone who, in the absence of a minimum, would earn even less. We take someone in the absence of a minimum who earned less than the minimum and tell that person, we regret that you do not have a minimum wage that we see as acceptable; if you can't do better, you can't work. That person doesn't have a whole lot of alternatives.

You turn to the employer and say, we don't want you to pay as low as a particular minimum, and you can't hire people at that minimum and they have got alternatives that stretch as long as your arm. Most obvious is the one you heard about from everyone here today, is they simply substitute for people who in the absence of the minimum would earn more in any case. People who were more productive, they can automate, they can subcontract, they can go to self-employed people, they can go abroad if it's a manufactured good. If nothing else, they can attempt to raise the price of this service with their product to their employers. The consumers can switch and consider other alternatives. It is a very uneven playing field. That is all I am going to say about theory.

What I am going to do now is talk about the numbers associated with the last minimum wage increase, and one thing I want to say is there are a few economists who have made a career out of finding nothing when there is a lot out there. I want to give you an idea of what the data look like.

The first graph that I'm going to describe is just one that addresses the simple notion that you must have heard over the last year, year and a half, that the minimum wage is being debated nationally, that the minimum is currently at a 40- to 50-year low, and one question you want to ask is relative to what? Relative to what matters in terms of employment decisions in terms of who will be

hired is the cost of minimum wage workers relative to other workers.

So what I have done is graph, since 1979 up through the end of 1993, the cost of the minimum wage relative to the median wage of men and women paid by the hour, ages 25 through 34.

You can see the rapid erosion in the minimum wage with nominal inflation and wage increases during the 1980's. You see the effect of the April 1990 and the April 1991 increases. Now, my graph stops in 1993. It would have continued to decline as nominal wages have increased, but it is probably somewhere around 1991 levels. So rather than the minimum wage being at a 40- to 50-year low, it is at a 5-year low.

The second chart that I want to put up is just to talk about the relative cost of employing different kinds of people when the minimum wage goes up.

Now, what I have done, if you think of people on a demographic group and a particular age group, for example, they have a distribution of wages, and what I have done is order wages just as test scores were ordered in terms of percent times and I moved to the 20th percentile in the wage distribution and said, let's look at what happens to the 20th percentile, the relatively low wage people among teenagers relative to young adults, young adults 20 to 24 years old, and notice during the later part of the 1980's prior to the minimum wage increase teenagers got cheap, and then the minimum was raised April 1990. Again, April 1991 teenagers got expensive relative to young adults.

Now, on the next chart I ask, OK, what happened to employment? And there you see it. And this is one case that I think a picture is worth a thousand words, that during the late 1980's when teenagers were getting cheap relative to young adults, employment of teenagers became plentiful relative to young adults. As the minimum raised the cost of teenagers, you see the absolute perfectly timed coincidence of the drop in teenage employment, and, by the way, it has not rebounded following the recession of the 1991, 1992 recession. I don't know how you can look at that graph and argue that there is not an employment response.

The final point that I want to make is in this following graph, and that is that the minimum wage is, in fact, an entry wage.

What I have done is take the most recent data that I could lay my hands on by matching 1992 with 1993 data and say, let's look at people who in 1991 were earning the Federal minimum $4.25 an hour up to $5.15 an hour. So they are the people who in principle would be affected if the minimum were raised to $5.15, which is the current proposal. These are people who in 1992 were doing it, and let's look at them 1 year later and see what they were doing.

Well, the blue bars show the average wage increase over a single year experienced by these people. The taller bar, and I can't tell you what color that is, gives the percentage of people whose wage actually went up. You see teenagers on average got a 15.8-, 16-percent wage increase. It is not that big.

If you move to the other age categories, you see a much sharper increase in wages in a single year overall, a 27-percent increase in wages in 1 year. This is just by way of—pointing out that this is

an entry wage and given the opportunity to work, wages will increase.

The final thing I want to say is that you as Congressmen cannot mandate productively increases. You just can't do it. But work will increase productivity. You give people an opportunity to work and they become more productive. And here is the simple evidence. If you go back to 1988 and you look at the same data, when the minimum was taking a much smaller bite in the wage distribution and was giving a larger number of people more of an opportunity, the average wage increase was almost 50 percent between 1980 and 1989 before the minimum was higher. But now that it is higher in relative terms you don't see as much of a response. But you still see a terrific option, a 30-percent 1 year increase on average. This is across everyone in the United States that I could lay my hands on in the Census Bureau data.

That is all I have to say.

Mr. MCINTOSH. Thank you, Professor Welch.

[The prepared statement of Mr. Welch follows:]

Statement of Finis Welch

Chairman McIntosh and members of the Subcommittee, I appreciate the opportunity to discuss my research and opinions regarding the minimum wage and the likely effects of the proposed increase. I am an economist on the faculty of Texas A&M University. I wrote my first paper analyzing effects of minimum wages in 1969. Co-authored with Marvin Kosters of the American Enterprise Institute, it was published in the *American Economic Review* in 1972. My most recent paper is a critical review of a study of minimum wages in New Jersey and Pennsylvania, which also was published in the *American Economic Review* and later included as the lead in a compilation of studies by Princeton Professors David Card and Alan Krueger. My review of the Card/Krueger book was published last summer in the *Industrial & Labor Relations Review.*

During the period since President Clinton first proposed increasing the minimum, I have conducted a considerable amount of research that examines a variety of issues concerning the minimum wage. This research has been conducted jointly with Donald Deere, my colleague at Texas A&M and Kevin Murphy who is with us here today.

The general principles regarding effects of an increased minimum are very clear.

When wages or other prices are artificially increased, less will be bought. This well-trod soil, the economists' law of demand, is as true today as when Adam Smith first described it over two centuries ago. Wishing it were not so or regretting that some have earning capabilities far below others will not change the basics of human behavior; as employers or consumers we try to get the most for our money. An arbitrary minimum wage increases the cost of hiring those who would otherwise earn less, but it does nothing to make them more productive.

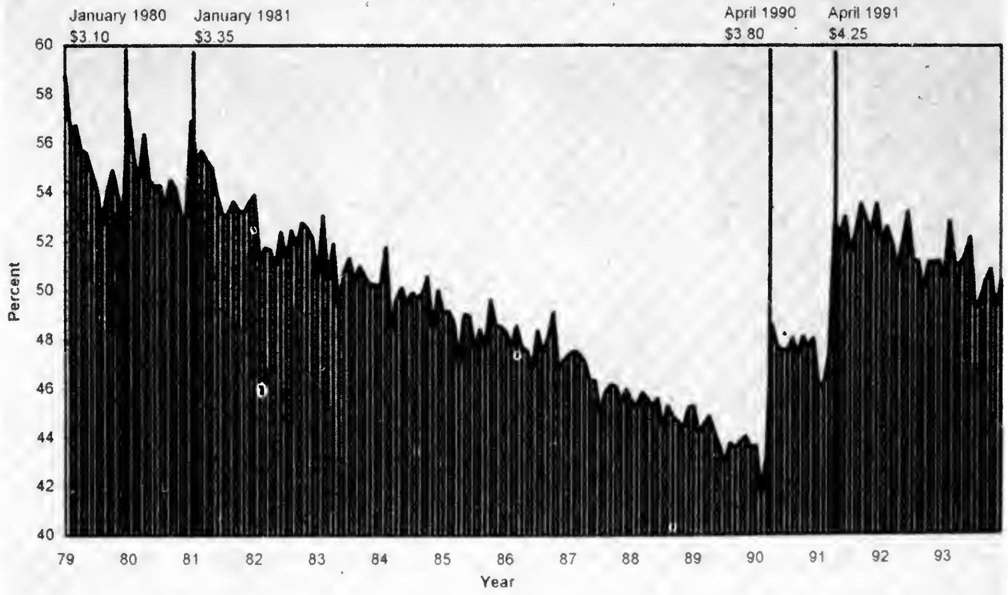
As a general rule people do as well for themselves as they can; inclusive of working conditions, fringe benefits, chances for advancement and pay, more is preferred to less. It follows that you do no one a favor by passing a law that says if they cannot earn more they cannot work.

To see the perversity of such a law explore the alternatives available to employee and employer when the minimum wage is increased. The employee's alternative is to find a job that pays more or become a non-employee. That's it. The employer and the consumer (the employer's employer) have more extensive menus. The obvious alternative is to substitute in favor of employees who would earn more in any case; after all, the vast majority of workers

have wages that exceed even the most aggressive proposal for wage floors. A second alternative is to outsource, to subcontract those activities where employee wages are low by going abroad or to self-employed contractors (since we have been unable to devine a scheme for imposing wage floors on the self-employed). A third alternative is to automate, to substitute machines that do not have legislated minimum prices. Finally, there is the alternative of just cutting back. If minimum wages accomplish anything, they increase the employer's cost and the purchasers of its product or service will search for lower priced alternatives. This may include choosing the same products from abroad or switching in whole or in part to different products.

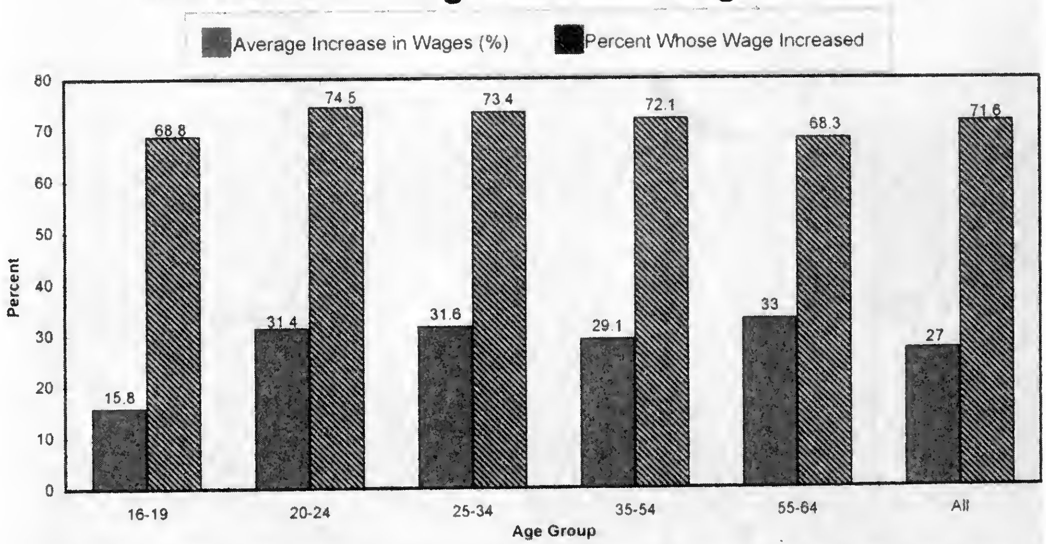
The facts concerning employment are also clear. I will provide graphs showing changes in teenage employment immediately after the most recent round of increases in the minimum wages. In the three months following the first step in the most recent round, teenage employment fell by about 8 percent relative to the employment of young adults. This reduction in employment coincides precisely with the increased cost of hiring teenagers that was spawned by the minimum wage hike. My rough calculations suggest that the Administration's proposal would have approximately twice the effect of the last increase. I will also provide graphs showing that in the only comparison that matters, the minimum wage is not low by historical standards. Finally, I will examine the subsequent earnings experience of the so-called minimum wage workers.

Minimum Wage Relative to Wage of Workers 25 to 34 Years Old



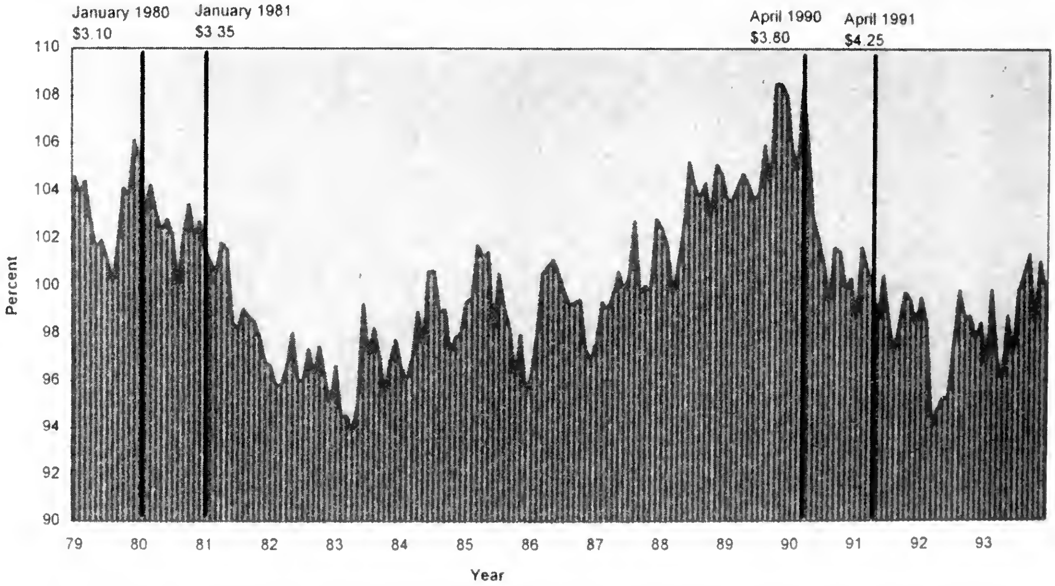
Source: Prepared by Finis Welch using the Outgoing Rotations of the Current Population Survey (U S Census Bureau) Wages of workers aged 25-34 refer to the medians among those paid hourly

Wage Increases and Percent Receiving Increases Among Minimum Wage Workers



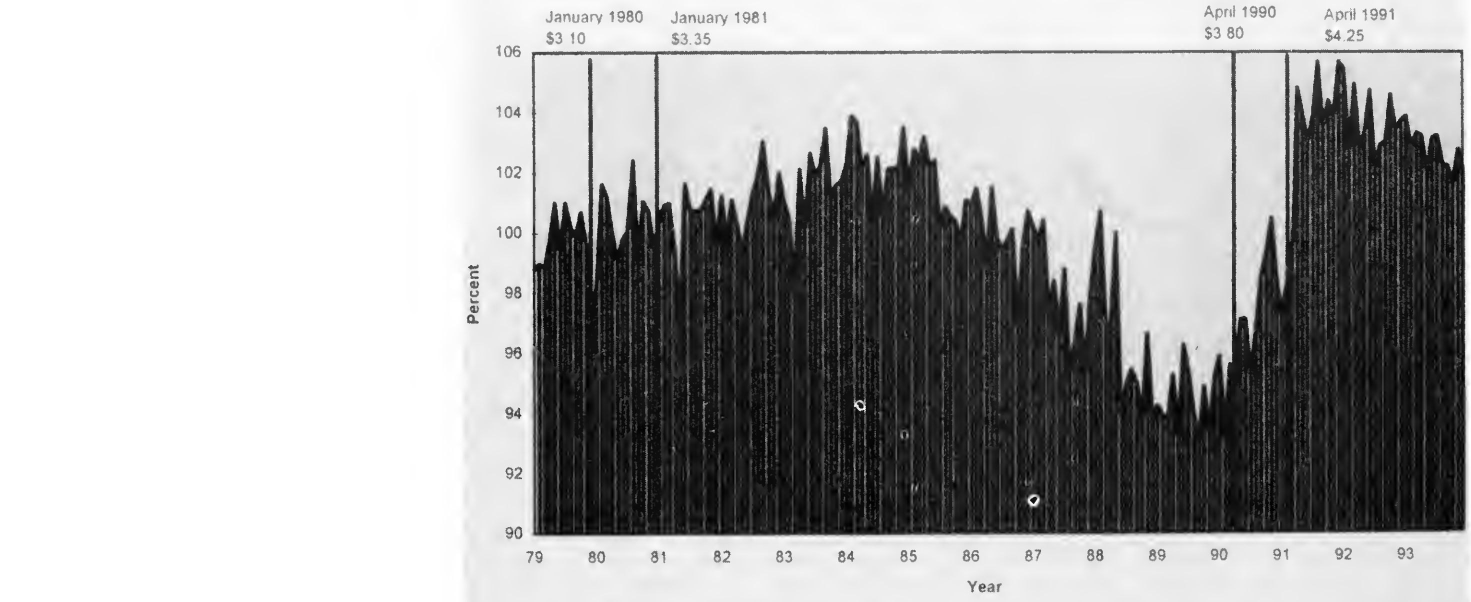
Source: Prepared by Finis Welch using the Outgoing Rotations of the Current Population Survey (U.S. Census Bureau). Data refer to 1992 and 1993. Age is as of 1992. Minimum wage workers are those hourly employees earning $4.25 to $5.14 per hour in 1992.

Employment of Teenagers Relative to Young Adults



Source Prepared by Finis Welch using the Outgoing Rotations of the Current Population Survey (U.S Census Bureau) Young adults are those aged 20 to 24

Cost of Teenagers Relative to Young Adults



Source. Prepared by Finis Welch using the Outgoing Rotations of the Current Population Survey (U.S Census Bureau) Young adults are those aged 20 to 24 Wages are measured at the 20th percentile of the distributions

Mr. McINTOSH. And before we move on to the other members of the panel I can't resist interjecting on this. The gentleman working on the slides, could you try overlaying the cost of teenagers relative to young adults to the employment of teenagers relative to young adults? It doesn't quite work——

Mr. WELCH. Actually, I would like to rotate it with the bottom side up so that it is an apples to apples comparison. When you rotate it, you are really showing the cost of young adults relative to teenagers and then the employment of teenagers relative to young adults.

Mr. McINTOSH. It is a very strong correlation in the two.

Mr. WELCH. It is what one would call statistically significant.

Mr. McINTOSH. A term of art. Thank you.

The other quick question I wanted to ask you, what is the distribution, roughly, of these different population groups? And I won't—I know what I think it probably is, but could you tell me? Is it level across those different age groups or——

Mr. WELCH. No. But one point that we are losing sight of, everyone talked about the percentage of teenagers in the low-wage population, and of course it is disproportionately teenagers, but the demographics are changing rapidly. So if we go to the beginning of the period—I was looking at 1979. By the time we get out to 1993 we have half as many teenagers per capita as we did in 1993. When people talk about larger proportions of adults among minimum wage workers, they are really only talking about the demographic phenomenon that the baby boom is over.

Mr. McINTOSH. Second, is there an upward turn that when you get to the senior end of this it goes down the middle and back up because seniors are often working part time?

Mr. WELCH. There is a definite pattern among older people who are going to retire. This year they are permitted to earn $14,000; last year is was $10,000. They will retire, begin earning Social Security, then move back to an entry level job.

One calculation that I did run the day before yesterday, I guess, was to ask among minimum wage workers in 1994—by minimum wage, I mean $4.25 up to $5.14—what proportion were women working full time in households in which the woman or the families in which the woman was head and there was a child present and that proportion is 1 person in 25. So it is—I just wanted to add that.

Mr. McINTOSH. Thank you, Professor Welch.

I wanted to also enter into the record that our colleague, Dennis Hastert, who several members—or two people from his district have been testifying on the earlier panel.

Do you have any comments you want to enter into the record? And thank you for joining us here today.

Mr. HASTERT. I will submit something for the record.

Mr. McINTOSH. Thank you. Both gentlemen from your district were extremely persuasive and helpful in the previous panel.

Our next witness on this panel is Professor Kevin Murphy, who is the George Pratt Shultz Professor of Business Economics and Industrial Relations, University of Chicago.

Professor Murphy, thank you for joining us, and please share with us your testimony.

Mr. MURPHY. Mr. McIntosh and members of the committee, thank you for inviting me here today and addressing the general economic issues surrounding the proposed increase in the Federal minimum wage. My discussion today will cover two basic issues regarding the minimum wage: The effect of a higher minimum on employment and the distribution of gains and losses from increasing the minimum.

Since others have spoken in length about the negative employment consequences of raising the minimum, I will focus only on employment effects briefly. Both economic theory and empirical evidence make the employment effects of a higher minimum quite clear. The law of demand, the most tried and true tenet of economics, tells us that the externally imposed minimum price for any commodity will reduce the amount of the commodity purchased in the market. Labor in general and low-skilled labor in particular are not immune to this law. When we raise the wage of low-skilled labor, employers will hire fewer workers. The empirical evidence of the employment effects of the minimum wage supports this.

Evidence from a study conducted by Donald Deere, Finis Welch, and myself of the 1990 and 1991 two-step increase in the Federal minimum wage, the kind of thing that Finis just showed you with the graph, implied that together these two increases in the Federal minimum wage reduced the employment for all types of low-wage and low-skilled workers. In particular, the results of our study implied that these increases in the minimum reduced male teenage employment by 7 percent, female teenage employment by 11 percent, and black teenage employment by 10 percent.

In addition, our estimates imply employment reductions for adults, that is age 20 to 54, males, females and black high school dropouts of 3 percent, 5 percent, and 6.7 percent respectively. So obviously the effects are not restricted to teenagers.

Our estimates are consistent with those in the economic literature on minimum wages. Our estimates imply substantial employment losses from raising the minimum. In addition, since the current minimum of $4.25 is substantially higher relative to the level of wages in the economy when it was at $3.35 minimum in 1990, a similar two-step increase in the minimum wage today would be likely to have an even larger negative impact on employment.

Finally, since the employment losses measured in our other studies refer only to the net loss of jobs from a higher minimum, they significantly understate the true number of individuals that lose their jobs as a result of the higher minimum wage. This occurs because, as our previous panelists illustrated, many jobs lost by the lowest wage workers when the minimum is increased end up being shifted to workers with higher earnings potential. These unmeasured job losses and the kind of statistics we are reporting here are an additional cost of the higher minimum above and beyond that measured in our study and represent a perverse form of economic redistribution for the lowest wage workers to others with significantly better economic options.

Since the employment consequences of increasing the minimum wage are undoubtedly negative, any rational support for a higher minimum must be based on its perceived ability to redistribute in-

come. Indeed, since raising the minimum wage actually decreases the size of the overall economic pie, raising the minimum wage can only be justified if such redistributed effects were sufficiently positive.

Viewed in this way, the minimum wage is essentially a tax transfer scheme. I should add one that is off the budget, and I think that is the reason why we are considering it here today as opposed to a more open one with total taxes in this case significantly greater than total transfers.

Given that, you might ask what makes for a good tax transfer scheme? Tax transfer schemes are effective when, one, there is little lost in the transfer process, two, the benefits are well targeted at a desired population and, three, the taxes are either broadly based or focused on a group that we desire to tax.

The minimum wage fails badly on all three counts. First, the large net, and even larger gross losses in employment I described above and shown in Finis' graph, imply that much is lost in the transfer process.

The second, the benefits of the minimum wage are exceptionally poorly targeted. I think this an underappreciated fact. Ninety percent of working age individuals in the lowest income households are not working at wages equal or near the minimum and therefore gain nothing and in fact must lose from a rise in the minimum.

In addition, about one-third of the minimum wage workers live in high income households. If we look at the average contribution of minimum wage workers by household income level, we see that it is remarkably constant. That is the first figure.

Basically, what goes along the horizontal axis is each 20 percent of the income distribution on the vertical axis is just a relative measure of how much they contribute in dollars to their family income. You can see there is very little contrast between the left-hand side which would be the low end of the income distribution to the top, which would be the high end.

As you can see from the figure, income from minimum wage workers is in no way concentrated at the low end. In fact, if you go by comparisons, seemingly odd policies like transferring income to all individuals regardless of their income level that live in the five lowest wage States in the union would be far more redistributed, would do much more to transfer income to the poor. In fact, the laundry list of more redistributed policies than the minimum wage is seemingly endless. And more economically sound policies like a revised earned income tax credit or efforts to try to reduce payroll taxes among low wage workers would be far more targeted. Most of the benefits would accrue almost entirely to the workers in those bottom two ends with almost nothing to those at the top.

Now, you always have to remember, and I think this has been underemphasized in most of the discussion, that these transfers come at another cost other than just the employment losses, that is, they must be paid by somebody. Every extra dollar that goes to minimum wage workers is coming out of somebody else's pockets. It pays to look at where these taxes come.

Basically, the two types of implicit taxes come from two sources: First, the higher prices paid by consumers of minimum wage products represents one element while the employment losses suffered

by the lowest wage workers represent the rest. The distribution of the implicit tax from the higher minimum is illustrated in my next figure which gives the cost impacts on a higher minimum wage on a range of industries.

Unlike the transfer side, which is essentially uniform across the income levels, the implicit taxes implied by a rise in the minimum are highly concentrated on a particular set of products. In this case, food, personal and social services like health care, child care, and other sectors like retail trade.

The second element of the tax, of course, is even more perverse. The fact that the higher minimum reduces employment for the lowest wage workers implies that a significant part of the transfer is paid for by a perverse and punitive tax on the lowest scale.

Indeed, all one needs to do to understand the distributional effects of raising the minimum is to go into a fast food restaurant. In essence, raising the minimum wage simply transfers income from those buying hamburgers to those that make hamburgers.

And there has been a lot made lately about family incomes and the effects on working families. If you go into the fast food restaurant and ask where the working families are, are they behind the counter or in front of the counter, I think you will see my point.

Even abstracting from the employment effects, it is hard to see how such transfers are sound economic policy.

Thank you.

[The prepared statement of Mr. Murphy follows:]

Statement of Professor Kevin M. Murphy

Chairman McIntosh and members of the Subcommittee, thank you for giving me the chance to speak on the economics of increasing the federal minimum wage. For the record, my name is Kevin M. Murphy. I am currently the George Shultz Professor of Business Economics and Industrial Relations in the Graduate School of Business at the University of Chicago. I have a PhD. in economics from the University of Chicago Economics Department and have done extensive research in the areas of wages, employment, unemployment, wage and income inequality and the minimum wage. My comments draw on my understanding of the principles of economics and on my research.

When considering a rise in the minimum wage there are three basic questions: Will increasing the minimum reduce employment? Who will gain and who will lose from an increase in the minimum? Will raising the minimum reduce poverty? My short answers are 1) employment will fall, 2) most Americans and certainly most poor Americans will lose from an increase in the minimum wage and 3) the minimum wage is an extremely ineffective and in many ways perverse method of trying to reduce poverty. I will consider each of these topics in turn.

First, the law of demand, the most tried and true tenet of economics, tells us that an externally imposed minimum price for any commodity will reduce the amount of the commodity purchased. Labor in general and low skilled labor in particular are not immune to this law. When we raise the wage of low skilled labor employers will hire fewer workers. The empirical evidence on the employment effects of the minimum wage supports this. Evidence from a study conducted by Donald Deere, Finis Welch and myself shows that the 1990-1991 two-step increase in the minimum reduced employment for all types of low wage and low skilled workers. In particular the increase in the minimum wage reduced male teenage employment by 7 percent, female teenage employment by 11 percent and black teenage employment by 10 percent. Our estimates show large employment reductions for adult (ages 20-54) male, female, and black high school dropouts of 3 percent, 5 percent and 6.7 percent respectively. Our estimates are consistent with those in the economic literature on minimum wages and imply substantial employment loses from raising the minimum. Since the current minimum of $4.25 is substantially higher relative to the level of wages in the economy than was the $3.35 minimum

in 1990, a similar two-step increase in the minimum wage to $5.15 would be likely to have an even larger negative effect on employment than what we saw in 1990-91.

Who gains and who loses from a rise in the minimum? At first blush the answer is simple, those who lose their jobs or cannot find employment when we raise the minimum are worse off while those who keep their jobs at the higher wage will be better off. Who will lose their jobs? Evidence suggests that job losers will be the lowest-wage workers: the young, the less educated, minorities, and women. These groups will bear the employment losses necessary to sustain higher wages for workers lucky enough to keep their minimum-wage jobs. In addition, all of those whose wages and income are not increased by the minimum will be worse off, as the higher minimum raises employers' costs and the ultimate prices of products.

Since most of the poorest individuals are not working (even prior to the rise in the minimum), the poorest individuals in society are unquestionably hurt by a rise in the minimum wage: they must pay higher prices for the goods and services produced by minimum wage workers but see no corresponding increase in their income. More fundamentally, from an economic standpoint the minimum wage is not a means of raising incomes — it does nothing to increase the size of the pie. At best it redistributes income from some — high wage workers, the lowest wage workers who lose their jobs, and the non-working poor — to the select subset of individuals who are able to keep their minimum wage jobs.

Given these potential redistributive effects of the minimum wage we might ask if raising the minimum wage is an effective anti-poverty tool. The answer to this question is probably the clearest. The minimum wage is not, in any significant way, a tool for fighting poverty. As I emphasized earlier, raising the minimum wage reduces employment for the lowest skilled and lowest wage workers in favor of workers with higher earnings potential. More generally, the link between the minimum wage and poverty is extremely weak. First, the vast majority of the poorest individuals do not work; for them raising the minimum wage is a cost, not a benefit. Second, the link between individuals with low wages and low household income is extremely weak. This is because so many low wage workers are teenagers in middle income families or are second workers in two-income families. Even the link between low household income and poverty status is weak since poverty status depends critically on other factors, like household composition, the number of working adults, and other sources of income. As a result of these weak links, about 1/3 of all minimum wage workers live in households with income levels above

the median. Raising the minimum wage does far more to redistribute income across individuals and families within income levels than it will ever do to close the income gap between rich and poor. To put it simply the minimum wage is not an effective anti-poverty weapon.

Mr. MCINTOSH. Thank you very much, Professor Murphy. I look forward to talking with you about our alternatives as well on those same criteria.

Our next witness is Dr. William Niskanen, who is currently the chairman of the Cato Institute. He received his Ph.D. in economics from the University of Chicago and was formerly a professor at the University of California at Los Angeles and, perhaps, at least, most significant in my mind, was on the Economic Advisors to President Reagan.

And I know this wasn't in your prepared text. You may also, if you have a chance—I would be curious to hear of your reaction to one of the arguments that has been made, or, at least, has been reported in the press—to have been made to us in Congress about why we have to go ahead and raise the minimum wage, and that is, supposedly even Ronald Reagan didn't stand in the way of an 80 percent issue, and the public, as ill informed as they may be, still decide that it is a good thing to raise the minimum wage.

I was wondering, having worked with President Reagan, whether you thought that was accurate. But we can get to that later on.

Dr. Niskanen, thank you for coming forward and speaking to us, and please proceed with your testimony.

Mr. NISKANEN. Mr. Chairman and members of the subcommittee, you are to be commended for your serious attention to the effects of a minimum wage increase. One might hope that a decision on this important issue would be based more on the probable effects of this increase rather than on an uninformed ideology and partisan politics.

My remarks today develop on two dimensions of this issue that have been mentioned but not developed by other panelists.

First is that the long-term effects of a minimum wage increase are likely to be more severe than the short-term effects, for two reasons. One is that an employment relation, whether it is defined by an implicit or explicit contract, is multidimensional. It covers the wage rate, nonwage compensation, and several dimensions of working conditions. Over time, the effective Government regulation of any one of these conditions would almost surely change the other conditions in the employment contract.

In the restaurant business, for example, an increase in the minimum wage might lead to a reduction of the amount of tip income that is collected by the waiters, waiters' share of tip income. It is likely to lead to an increase in the use of split shifts, people working 3- or 4-hour shifts that are separated in time rather than a continuous shift.

More generally, there would be general pressure to reduce various forms of nonwage training—nonwage compensation, a training on the job, health insurance, pensions, parking permits, and so forth, and other forms of nonwage compensation.

For these reasons, the long-term benefits to those who stay employed are likely to be lower than the mandatory increase in the wage rate itself.

On the other hand, the long-term costs to those workers for whom the opportunities for legal employment have been reduced are likely to be higher than the short-run cost.

A minimum wage job is usually the necessary first step toward a higher wage job for those with the lowest initial skills. Workers with higher skills can often start at the second or third rung of the employment ladder, but for those with the least initial skills, a minimum wage job is typically the necessary first step toward a higher wage job.

For this group, work is the best vocational training, and most minimum wage workers receive a substantial wage increase within the first year of employment. An increase in the minimum wage thus not only denies these workers a legal initial job but it denies them the opportunity for the necessary on-the-job training for a higher wage job.

Second, an increase in the minimum wage is not an effective policy to increase the income of poor households. To document this point, I will use two tables from a recent study by Prof. Richard Burkhouser at Syracuse University, and with your permission I will go to the slide over here to illustrate these points.

Mr. MCINTOSH. Todd can help you with that, if you want, Professor.

Mr. NISKANEN. Let me go over here because I really need to point out some points.

Mr. MCINTOSH. OK, very good.

Mr. NISKANEN. This first table prints the distribution of workers by wage rate and by household income just prior to the latest increase in the minimum wage, and it illustrates the reasons why the minimum wage is so poorly targeted to people from poor families.

The first is that there are a relatively small number of workers from poor families. About 14 percent of Americans are in poor households, but only 6.1 percent of workers are in poor households. So you have a disproportionately small share of workers from poor households.

Second is that only about 26 percent of these workers in poor households were in the wage range affected by this latest increase in the minimum wage. So 26 percent of 6.1 percent is about 1.5 percent, which means 1.5 percent of workers were affected—1.5 percent of workers at the time of the latest minimum wage increase were in poor families and were affected by the minimum wage increase.

Third, only about 7.1 percent of all workers were affected by the latest minimum wage increase. That means that 1.5 percent of the 7.1 percent means that only 22 percent of the benefits of the latest minimum wage increase in this last column percent of affected workers—only about 22 percent of the benefits of the latest minimum wage increase accrued to workers who were in minimum wage—in poor families, and no more than about 35 percent of the benefits accrued to all households with incomes up to 1½ times the poverty line.

In contrast, a roughly equal amount, 33 percent of the benefits of the latest minimum wage increase, accrued to households with incomes three or more times the poverty level.

Minimum wage, in summary, is not an effective policy to help poor families for two reasons: First, most workers in poor families are not affected by the minimum wage; and, second, most workers that are affected by the minimum wage are not in poor families.

The second point compares the distribution of the benefits of an increase in the minimum wage to $5 an hour compared with the distribution of the benefits of the latest increase in the earned income tax credit that went into effect on January 1 of this year.

Now, the most recent proposal for a minimum wage increase is to increase the wages from $4.25 to $5.15 per hour over 2 years. This would raise the total cost, the minimum wage package that is evaluated here, but the distribution of the benefits would be much the same.

The important point here is the following: Only 14 percent of the benefits of increasing the minimum wage would accrue to workers in poor households, again, even if there are no adverse employment effects and only 27 percent of the benefits of the minimum wage increase would accrue to workers in households with up to 1½ times the poverty line.

Now for roughly the same cost to the economy of the proposed increase in the minimum wage, the earned income tax credit would generate about 35 percent of the benefits of the earned income tax credit would accrue to workers in poor families, and 66 percent of the benefits of the earned income tax credit would accrue to families with incomes up to 1½ times the poverty line. So the EITC is a far more effective instrument to increase the incomes of low-income families than the increase in the minimum wage.

Now this EITC increase is already in place as of January 1 of this year. It increases the wages of workers with two children by $1.70 an hour. So it raises their wage from $4.25 an hour to $5.95 an hour, and that is already in place. The increases for workers with less than two children is slightly less than for no children; it is substantially less. But for workers with children, the EITC increase that is already in place would do a great deal more for workers from poor families than the proposed minimum wage increase which Congress has yet to vote on. And, moreover, the increase in the EITC would not have the adverse employment effects on the low-wage workers that is characteristic of the effects of minimum wage.

I think Professor Burkhauser was correct to conclude his study with the following quote—with the following words:

> Aside from nostalgia, it is hard to explain continued support for increasing the minimum wage by those who are genuinely interested in helping the working poor. It is time to relegate the minimum wage to the museum of antiquated policy and to use the EITC as a method of making work pay.

My own conclusion is the minimum wage is maximum folly.

Thank you.

[The prepared statement of Mr. Niskanen and the tables referred to follow:]

William A. Niskanen
Chairman
The Cato Institute

Imagine how most Democrats would react if the Republican leadership proposed a federal law with the following effects:

- The hourly wage rate would be increased by up to 20 percent for several million workers, most of whom are not in poor households.

- The number of legal jobs would be reduced by several hundred thousand for those workers with the least skills, many of whom are in poor minority households.

- Teenage school enrollment would decline.

- The price of many goods and services on which the poor are most dependent would increase.

The proposed increase in the minimum wage, of course, is the measure that would have those well-documented effects. Moreover, the long-term benefits would be lower than the apparent short-term benefits, because some employers would reduce nonwage compensation and change working conditions to economize on labor costs. And the long-term costs would be higher than the short-term employment effects, because a minimum wage job is usually the necessary first step toward a higher wage job for those workers with the lowest initial skills. In addition, for roughly the same cost to the economy, the increase in the earned income tax credit (EITC) scheduled for this year will generate much

higher benefits for low-wage workers in poor households without the adverse employment effects of an increase in the minimum wage.

The Republican leadership, of course, did not propose an increase in the minimum wage, although they seem dangerously close to compromising with such folly, and they have undermined their opposition by proposing restrictions on the EITC. Nor did President Clinton press this issue when the Democrats controlled Congress. In this election year, however, Clinton and the congressional Democrats have reverted to the politics of nostalgia. Members of Congress discredit our political system when their vote is based more on who proposes a measure than on its substance and expected effects. Prof. Richard Burkhauser of Syracuse University summarized the issue well: "Aside from nostalgia, it is hard to explain continued support for increasing the minimum wage by those interested in helping the working poor. It is time to relegate the minimum wage to the museum of antiquated policies and to use the EITC as a method of making work pay."

TABLE 1
WAGE DISTRIBUTION OF WORKERS BY THE INCOME-TO-NEEDS RATIO OF THEIR FAMILIES[a]

Income-to-Needs Ratio[b]	$0 01 to $2.99	$3.00 to $3 34	$3.35 to $4 24	$4 25 to $5 50	$5 51 to $9 99	$10 00 and Over	Total	Percent of All Workers	Percent of Affected Workers
Less than 1 00	4 8%	1.3%	25 8%	29 1%	28 8%	10 1%	100 0%	6 1%	22 0%
1.00 to 1.25	3.9%	0 8%	15.6%	25.5%	45.7%	8 6%	100.0%	2 8%	6.1%
1.25 to 1 50	3.7%	2.2%	14 9%	24 7%	43.7%	10 8%	100 0%	3 3%	6 9%
1.50 to 2 00	1 7%	1 1%	10 4%	22 7%	49 4%	14 7%	100 0%	8.2%	11 9%
2 00 to 2.99	1 8%	0 9%	8 1%	15.7%	47.6%	25 9%	100 0%	17.9%	20.3%
3.00 and Above	0 7%	0.5%	3 8%	6 7%	27 6%	60.7%	100.0%	61.7%	32 8%
Percentage of all workers	1 4%	0 7%	7 1%	12 1%	34 1%	44 5%	100 0%		

[a]Affected worker population are those working at the time of the survey whose wage rate ranged from $3.35 per hour to $4 25 per hour
[b]The Income-To-Needs Ratio is calculated by comparing total family income to the relevant family size-adjusted poverty line
Source Outgoing rotation group of the March 1990 *Current Population Survey*

Help for Those Who Need It Most		
The table below shows how benefits of a minimum-wage increase and an Earned Income Tax Credit increase would be distributed. Households below the poverty line would get only 14% of the benefits of an increased minimum wage. But they would get 35% of the benefits from EITC increases.		
Ratio of household Income to poverty line	**Minimum wage increase**	**EITC increase**
Less than 1.00 (poor)	14%	35%
1.00 to 1.25 (near-poor)	6	16
1.25 to 1.50 (near-poor)	7	15
1.50 to 2.00	24	11
2.00 to 3.00	34	2
Additional cost	$9.7 billion*	$10.8 billion**

*Simulates an increase in the minimum wage from $4.25 to $5.00 per hour and assumes hours worked would remain the same.

**Simulation assumes all eligible workers apply for benefits and that hours would remain the same under the 1996 EITC rules.

Richard V. Burkhauser and Andrew J. Glenn, Center for Policy Research, Syracuse University. 1994

Mr. McINTOSH. Thank you very much, Dr. Niskanen. I appreciate that, and, once again, the quote behind me illustrates as of a year ago President Clinton agreed with you on that statement.

Our final witnesses in this panel is Prof. Edward Montgomery, professor of economics at the University of Maryland.

Professor Montgomery, I appreciate you coming today. One of our colleagues who had hoped to come here, Bob Ehrlich, the freshman from Maryland, asked me to extend you his greetings.

Mr. MONTGOMERY. Mr. Chairman, I appreciate the opportunity to come and testify about the proposed increase in the Federal minimum wage.

There are many capable economists who have come to testify on this issue both at this occasion and previous ones, and rather than getting embroiled into what one study shows as opposed to what another study shows and matching one cut of the data and getting involved in arcane arguments over statics and methodology, I wanted to focus on what does the vast body of literature suggest about the likely impacts of the minimum wage.

I think that the overwhelming majority of the evidence suggests that the employment losses associated with an increase in the minimum wage would be small.

Second, changes in earnings inequality over the past decade, much of which have been highlighted, have changed the size and changed the characteristics of the beneficiaries of minimum wage relative to some of our past experience.

Finally, while teenagers may account for many of the minimum wage workers, their earnings should not be dismissed as if they are somehow frivolous expenditures. Rather, in many cases these funds provide household necessities and help finance their investments in college and higher education.

As you are well aware, there are a number of fairly controversial studies looking at the employment effect in question. There has been a lot of excitement and debate amongst economists, perhaps not out in the rest of the world, but labor economists in particular have become very excited about this whole issue, and no doubt I think this debate has added to our reputation as people who cannot agree on anything.

We have already heard from economists who are directly involved in those studies, and, again, as I said, I don't want to get involved in them. The question is, Are there new lessons that we should draw from the current studies which have not—that we haven't drawn from the past?

The minimum wage is a 60-year-old minimum. Consequently, neither discussions of the pros and cons of the increase in minimum wage or even of having a minimum wage are new. So rather than simply reinventing the wheel, let's examine what the large body of existing work tells us about the impact of this 90 cents increase.

While you can use the estimates from recent studies to show the proposed increase in minimum wage will increase employment of low-wage and minimum wage workers, and if you use some of these elasticities, you can get increases of over 10 percent, you can also use recent studies to show that it will reduce employment by a similar amount.

I don't believe that the evidence is such that I, or the majority of the profession, support either of those estimates. While theoretically possible, I do not expect that the proposed increase in minimum wage would actually generate increased employment. However, with few exceptions, the scores and scores of studies which have been cataloged very aptly by Charlie Brown and others indicate that job losses or disemployment effects associated with increases in minimum wage tend to be quite small.

Professor Welch puts up a graph illustrating to some degree the recent experience in the 1980's and 1970's. If one were to conclude that employment was very sensitive to changes in the minimum wage, what would you have expected to see? You would have expected to see dramatic improvements in the relative employment of low-wage workers; you would have expected to have seen dramatic improvements in the employment of the minority workers, who are again disproportionately low-wage workers.

What did you see? What you saw is a relatively modest change that took place over the course of a whole 10-year period, which again suggested on net the total effect of a change in the minimum wage, in this case a decrease in the minimum wage, was to generate very small changes in employment in the positive direction.

You can say that past experience is a poor guide for evaluating current policy, so the current studies should be given more weight, but if you look at these current studies in greater detail and say, do they make us fundamentally need to change our view about the value of past studies? I think the answer still comes down to, no, they don't.

One should not simply look, however, at the potential costs of raising the minimum wage. This may be a particularly grievous oversight, given the substantial change in the distribution of earnings which Professors Murphy and Welch have documented in other pieces of their work. They and others have shown that a decline in the relative position of less educated and experienced workers has occurred both in terms of their earnings and in their employment prospects.

Some economists have noted that the greater rise in inequality in the United States and in Europe can be attributed to the erosion of the minimum wage in the United States.

While not necessarily subscribing to the notion that the decline in the minimum wage explains all or even a large share of the decline in equality, it is clear that the gap between the top 10, and bottom 10, percent of adults has widened, and much of this is due to lack of wage growth for low- and median-income workers.

To the degree low-wage workers are secondary workers in households, then one might be less concerned about the decline in their relative wage. Unfortunately, existing evidence strongly shows that low-wage women are married to low-wage men and that families—and the families that have experienced the most rapid income growth over the past decade are made up of high-earning husbands and high-earning wives.

It is clear that the increased share of households in this country that do not have two earners but are rather—are headed by women whose wages tend to be amongst the lowest in the economy. Whether this group accounts for 5, 20, 30, 50 percent, we can de-

bate all day, but the results are still clear that this group is a significant pool and that it has grown relative to historical precedent.

Let me add one final point on beneficiaries of the minimum wage. Much has been made of the number of teenagers who work at the minimum, whether they are the majority or the minority of minimum wage workers.

First of all, while evidence suggested that 60 percent of those affected by the proposed minimum wage increase are adults, many of the teens do come from low-income households. Again, this is particularly true amongst African-American youths. Their contribution to the economic standing of their family should not be ignored.

Second, the survey evidence suggests that teens that work, about a third of them are using most or all of their income to finance their education. While the average university tuition is in excess of $10,000, the average student graduates about $18,000 in debt.

It is not surprising that 40 percent of students at 4-year colleges are employed while they are trying to go to school full time, and 74 percent of those who are going to school part time for higher education are also employed. All of these students are struggling to meet the twin demands of classroom and work.

The experience of my students at a large State university belies the characterization that their earnings from their minimum wage job go to finance frivolous luxuries. An increase in the minimum wage would help ease the burden of financing these needed investments in their human capitalism skill.

In summary, let me suggest that the evidence on the minimum wage indicates a change in the minimum wage is not a panacea for all of society's ills. Given the magnitude of the proposed increase, it will neither remove all of poverty from our society nor will it relegate millions of workers to unemployment. The evidence is overwhelming that a job loss associated with the proposed increase will be small.

I believe the benefits both in terms of increased income for 11 million potential beneficiaries who support their families and finance their education with this money would be substantial. That this modest increase in the minimum wage can help reduce inequality and enhance fairness should be seen as a benefit.

Many of my fellow economists who oppose this increase disregard these measures. They view any disemployment effect associated with an increase in minimum wage as unacceptable. They would and have opposed not only this increase in the minimum wage but every increase in the minimum wage since it was first instituted. In fact, they would tend to oppose the very existence of a minimum wage itself on efficiency grounds.

I understand these arguments, and we are all well drilled in them as young economists. Few, if any, Government programs or regulations would, of course, passed luster on to this criteria, which maximizes solely that side of the economic pie.

Economics, however, is silent on the distribution of the pie or the tradeoff between efficiency and equity or fairness. When the evidence is overwhelming and it suggests that the costs of the proposed increase in the minimum wage are small or that it will enhance the well-being of 5 million minimum wage workers or 11 million low-wage workers, it seems shortsighted to ignore these gains.

Consequently, I would urge you to pass the proposed increase in the minimum wage.

Thank you for the opportunity to testify. I would be glad to answer any questions.

[The prepared statement of Mr. Montgomery follows:]

Preliminary Draft

STATEMENT OF

EDWARD B. MONTGOMERY

PROFESSOR OF ECONOMICS

UNIVERSITY OF MARYLAND

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

UNITED STATES HOUSE OF REPRESENTATIVES

I am pleased to be invited here today to present my views to this committee on the proposed increase in the Federal minimum wage. While many capable economists have come to testify before you on this, and other occasions, on the merits (or faults) of current research on the minimum wage, I would like to take a somewhat different tact. My focus will be on trying to delineate the following basic points. The debate over the minimum wage is not new and hence a broader look at the record of evidence should guide our conclusions about its efficacy. The overwhelming majority of past work suggest that employment losses associated with an increase will be small. Second, changes in earnings inequality over the past decade has broaden the size and change the characteristics of the likely beneficiaries. Finally, while teenagers account for many of the minimum wage workers, their earnings should not be dismissed as representing frivolous expenditures, but rather, in many cases, provide funds household necessities and to finance their investments in higher education.

As you are well aware, there have been a number of fairly controversial studies about the

employment effects of increasing the minimum wage. Much excitement and debate has been stimulated amongst labor economist and those in the profession in general. This has no doubt added to the reputation of economists as people who are unable to reach a conclusion. You have already heard from economists who were directly involved in these studies. Rather than get embroiled in the debate over the methodological and statistical pro's and con's of these various pieces of work, I would rather address the question as to what, if any, *new* lessons policy makers and the public can take away from this debate. The minimum wage is not new, nor are discussions of the pro's and con's of increasing or even having a minimum wage. This raises the questions of what new insights do we have about the impact of raising the current minimum wage by $1.00 over the next two years. While I believe you can find extreme estimates suggesting that employment of minimum wage workers would fall by 10 percent and others that claim it will *increase* by a comparable amount, I do not believe the evidence is such that I, or the majority of the profession, would support these conclusions. I do not expect that the proposed increase in the minimum wage would actually generate more employment, while nothing in the hundreds of new and old studies that have been done on this issue suggests that the disemployment effects of the minimum wage will be anything but small.

As was the case in the 1980's, the fall in the real value of the minimum wage over the past six years has failed to increase the relative employment of teenagers or other low and minimum wage workers. Employment gains in response to the falling minimum wage were small to non-existent. None of the current studies has provided a shred of evidence that the effect of increasing the minimum wage in 1996 will be larger than it has been any other time Congress has increase the minimum wage. If anything, the current work suggests that the disemployment effects will be smaller. Consequently, economists who look at the disemployment effects of the

minimum wage as unacceptable would (and have) opposed not only this increase in the minimum wage, but *every* increase in the minimum since it was first instituted and indeed the very existence of the minimum wage.

What has changed in the minimum wage debate is the potential benefits of an increase in the minimum. Professor's Murphy and Welch were some of the first to document this change in the wage structure, and offer evidence on the declining relative position of less educated and experienced workers. Some economists have noted the greater rise in inequality in the United States than in Europe and attribute part of it to the erosion of the minimum wage in the United States. While we can debate the relative importance of the minimum wage in this phenomena, it is clear that the gap between the lowest 10 percent and the top 10 percent of adults has widened. It is also clear that an increasing share of the poor households in this country are headed by single women whose wage tend to be among the lowest in our economy. Whether they account for the majority of minimum wage recipients can again be debated, but it is clear that there are more adults with families in the pool of workers that stand to benefit from an increase in the minimum wage than has historically been the case.

Let me add one final point on the potential beneficiaries of the minimum wage. Much has been made of the number of teenager who work at the minimum wage and whether they are a majority or minority of minimum wage workers. First, many of these teens are members of low income households whose contributions to the economic standing of the family is significant. Second, survey evidence suggest that of teens that work about a third of them spend most of their earnings on their education. With average University tuition in excess of $10,000, almost 40 percent of students at four year colleges are employed and trying to going to school full time. Almost 74 percent of those teens going to school part-time are employed. These students struggle

to meet the twin demands of the classroom and the work force. The experience of my students at a large state University belies the characterization that the earnings from their minimum wage jobs goes to finance frivolous luxuries.

In summary, let me suggest that the evidence on the minimum wage indicates that changing the minimum wage is not a panacea for all of societies ills. Increasing it will neither remove all poverty from our society nor will it relegate millions of workers to unemployment. The evidence is overwhelming that cost of this proposed increase will be small. I believe that the benefits both in terms of the increased income for our lowest paid workers, many of whom support families or finance their education with this money, and basic fairness substantially exceed these cost. Consequently, I urge you to pass the proposed increase in the minimum wage.

Thank you for the opportunity to testify before this committee. I would be glad to answer any questions you might have.

Mr. McINTOSH. Thank you, Professor Montgomery.

Let me now actually make one point in the record and then ask a question about our alternative.

You just mentioned that some economists will say on efficiency grounds the correct minimum wage is zero. I will point out the article that I mentioned earlier, and will have it put in the record, that as of a few years ago the New York Times thought that was the case, that the right minimum wage should be zero, and they were essentially arguing—and I quote—"There is a virtual consensus among economists that minimum wage is an idea whose time has passed. Raising the minimum wage by a substantial amount would hurt working people out of the job market."

And ultimately I think that our question: Is there a way that we can assist people who are at the low end of the earnings scale in this country without having these negative job effects of essentially asking 100,000—as many as 700,000, depending on whose estimates you take—individuals to give up their potential job or their existing job in order to benefit their colleagues in the work force?

And so the proposal that we put together is an alternative that eventually, to use Professor Murphy's term, puts it on budget, says this tax transfer will be a restraint by the Government from taxing those people who are at the lowest wage level in our society, and you have to pace it out so that you don't have a notch there that is unacceptable in terms of incentives and allow the employer to pay 100 percent of their cost to the employee and have the employer's cost go up none or some small amount in terms of recordkeeping, and then reduce the Government expenditures in other areas in order to make up that difference in the Social Security trust fund.

I wanted to ask each of you—and I will start with you, Professor Montgomery—what do you think about that as an alternative? Is this a better way to try to help those people?

Mr. MONTGOMERY. Without having all the details worked out—and I think the devil really is in the details—the initial reaction, I think, of most economists to the idea of a wage subsidy—which I think I should characterize your proposal—is that that would generate some positive potential employment effects. The evidence on past job tax credits, however, suggests that the effect is very small, if nonexistent.

The concern one would need to have is the phaseout issue. What you wouldn't want to generate is a situation where a worker who is right at a penny over the cap wouldn't want—either wouldn't want a raise or the employer wouldn't want to hire them.

One needs to be very careful with the phaseout issues, and there are questions with, one, how one finances a very slow phaseout as opposed to notches. We all know from many programs, welfare and others, having notches generates potentially large disincentive effects.

There are obviously questions about the IRS' ability to monitor wages since what they collect is earned income rather than wages, and you want to give the credit for minimum wage hours rather than income.

So to the degree somebody works overtime, Do they get paid for those hours? Did the IRS have to set up a separate bureaucracy for

that effort? I think are concerns, particularly in the details about how that kind of proposal works out.

But the broad view approach of thinking about some kind of a tax credit, like the earned income tax credit currently does, I think most economists would agree——

Mr. MCINTOSH. It turns out, as we were drafting the details, it would be remarkably easy to implement with the earned income tax system where the employer is given a table and they calculate how much of withholding is paid to the employee and how much is due to the IRS, and the amount paid to the employee is a credit on FICA tax toward that person's account.

Thank you.

Dr. Niskanen, do you have any comments on that?

Mr. NISKANEN. Chairman McIntosh, I realize—I understand the reasons why you and your colleagues feel compelled to be perceived to be doing something in an election year, but I have learned a long time ago not to pass quick judgment on a complex new proposal.

I see little reason at the moment to rely upon an instrument that—other than the earned income tax credit. I think it was a mistake for the Republicans to propose limiting the earned income tax credit. And there are problems with that system, mostly in terms of enforcement in the treatment of sources of other income, but I think that is likely to be much superior to—a much superior proposal than the alternatives, at least in terms of what I have been aware about so far.

But importantly, the EITC is in place, was substantially increased effective the first of this year, and will generate a great deal more benefits to workers from poor families than the proposed minimum wage increase which is yet to be voted on, and it does not cost any more to the economy than what the proposed minimum wage increase is.

I will pass—I will avoid making judgment about your proposed alternative at the moment, but I think that we should not rush to judgment on an alternative before we have a full understanding of the policies that are already in place.

Mr. MCINTOSH. I thank you for that caution. I think it is a wise one, although we may be forced to rush to judgment on voting for a minimum wage, and I am told, at least, that at this point there are sufficient votes to put that in, in the House and in the Senate.

Professor Welch, do you have any comments on the proposal?

Mr. WELCH. I guess the point I would like to make is that the Social Security system is really fouled up, the way that credits are given, the fact that only 35 years of a work career are counted in computing the average adjusted monthly earnings rather than the full career and the full contributions.

The calculation moving from average earnings per week or adjusted earnings per week to the primary insurance amount, which governs benefits, is phenomenally progressive. Roughly, people at the low-end income or the low leg of the contributed lifetime—or credited lifetime earnings will find the value of the Social Security system about nine times as great as people who are always at the Social Security maximum.

With that in mind, I don't think if people—and one other point, and that is that most people who earn low wages are earning them transitorily.

I would guess many people in this room, at this table, and at your table, have worked for the minimum wage or near the minimum wage, and if you haven't, your children probably have or will. And the idea that those people need some kind of assistance, I think, is just wrong.

The idea of removing this tax burden—and it is Social Security—I mean, that is almost all of it—is an attractive one. I just don't see the need to credit the Social Security contribution and fund it in some other way.

Mr. McINTOSH. Thank you, Professor.

Professor Murphy.

Mr. MURPHY. Yes, a couple of things that I would like to add.

First, I think to characterize the minimum wage in a discussion of, say, the EITC or the kind of proposal that you are talking about is really a mischaracterization. The proposal that you are talking about sounds like—and the EITC certainly is an effective way of fighting poverty and redistributing income to low-income households. By comparison, I mean, the minimum wage is not in the same league.

The minimum wage as a redistribution tool is so blunt and so ineffective that I don't know how one can make such a comparison. As I said before, if that's our criterion, that we need something to be redistributed, there's a million policies that would be in line ahead of the minimum wage.

So if it really is some kind of tradeoff between efficiency and just pure redistribution for the sake of redistribution, the minimum wage wouldn't even be considered. So it is clearly a political motive there.

The policy that you are talking about, I think, in principle, sounds like it is moving in the right direction, although I think that it might be better to go ahead and think of paying it or implementing that policy through a type of tax credit, where you have got a tax credit based on what was paid in. So effectively you are eliminating the Social Security tax. That would probably allow for a more effective means of limiting the range and the scope of individuals who might be eligible for such a credit.

I think it is a good idea, and I think the main thing is, we have to get away from the problem with the minimum wage, which is what you are talking about, is not giving the credit across the board to the people in the high-income households as well as the people in the low-income households. You are really trying to think of a way to target it at the low-income households, and I think that would be effective.

So I think that type of a program, again, as everybody said, the devil is in the details, but that's certainly a much better starting point than starting with something as arbitrary as the current minimum wage proposal, which would do, frankly, very little to fight poverty.

And all these other proposals have positive effects. People might argue they are small, but they are certainly going to be positive ef-

fects on employment as opposed to the negative ones inherent in the minimum wage.

So I would see those types of things as a great starting point. Hopefully, we could have something like that, that we would work on as an alternative and not rush to judgment but have that as a backdrop that we know we can turn to if we are fortunate enough to be able to avoid the current proposals.

Mr. McINTOSH. Thank you, Professor Murphy. I appreciate that.

Let me now turn to our colleague from Arizona, Mr. Shadegg.

Mr. SHADEGG. Thank you, Mr. Chairman.

Let me first begin by saying I want to thank this panel for appearing. I think, as the other panels, they have added to the dialog here.

I simply want to start by noting, as I did before, that I thought the last panel was particularly helpful in trying to simply educate the American people on the issues involved in the minimum wage and to drag out this issue of 70 or 80 percent of Americans believe we ought to increase the minimum wage. And I think it is vitally important that more and more people hear that message.

And I think this panel has done a great job at a kind of intellectual level. I think the last panel did a superb job at a kind of a gut level of explaining the problem with that.

I would note just for the record, Mr. Chairman, and make a request, since Congressman Condit, Congressman Waxman, Congressman Kanjorski, Congressman Spratt did not apparently have the time to come to this hearing or hear any of the testimony, either the eloquent testimony of the last panel or the intellectual testimony of this panel, and our colleague, Congresswoman Meek, also didn't have the time, I would hope that as a committee we could provide them either with a videotape or urge to—present to them perhaps the time schedule at which time C–SPAN might replay this, because I think this is vitally important information on a critical issue.

I would also urge that, since Congressman Peterson and Congresswoman Slaughter were only able to stay with us briefly—essentially no Member of the minority has been here today—perhaps we could also provide them with a videotape or a schedule, and I would like to see us provide the President and Secretary Reich with that same videotape because I think this has been invaluable testimony.

Having said that, I want to turn and thank Mr. Montgomery for his testimony.

I happen to note, Mr. Montgomery—I ultimately lost count—I believe either three or four or five times in your testimony you indicated that the job loss would be small. I presume that for those who are currently employed at the minimum wage and who would lose their jobs, and who reside in the districts of those Members who couldn't come here today, or chose not to, and for those who are just outside the economic ladder—that is, they don't have a minimum wage job but their application is sitting at McDonald's or Burger King trying to get that first wage—that first job, reach that first rung of the economic ladder, I think there again it would be very helpful for those constituents who probably wish that their Member of Congress on this committee had been here to hear this

testimony today had—it would be useful for them to have this testimony.

Having said that, let me start, Mr. Murphy, with a quick question to you. You said this is really a tax transfer scheme. Can you just put that in—briefly in simple English, what you mean, what this Congress is really doing?

Mr. MURPHY. Yes. I mean, really, we have had a lot of discussion today focusing on two things. One is the gains that would go to the minimum-wage workers who would keep their jobs and get $5.15 rather than $4.25, and the cost, which is the people who lose their jobs.

But we have completely ignored the other part of the cost, which is a big component of the cost, which is the higher prices or reduced profits to the employers, although most of it is going to show up in higher prices, paid for by the consumers, and that's really the biggest element of the tax.

And so what we are not talking about is income gains for some offset by some economic loss through reduced employment. What we are really talking about is taking money from these people over here, giving it to these people over here, and in the process reducing employment as a third element.

And what happens when you look at who pays the cost of the higher minimum, in terms of the types of jobs, you look where they are. They are in the food service; they are in eating; they are in child care; they are in health care, nursing homes, social services. I mean, that's not Bill Gates, right?

We are talking about taking the money out, the taxes being paid for by the consumers of those products, and importantly, it is like—like I said, it is so simple. You just go into a McDonald's and look at the guys in front of the counter and behind the counter, and the people that aren't here today, in their infinite wisdom, are saying they know enough to say that we should take money from the guys in front of the counter and give it to the guys behind the counter.

Frankly, when I look at the picture, it makes no sense. I don't see it. That's my point, that redistribution is not the name of the game with the minimum wage. It is redistribution but kind of a very arbitrary sort. It is not helping the poor. It is taking from the guys buying the hamburgers to give it to the guys making the hamburgers, and I don't see that.

Mr. SHADEGG. Mr. Niskanen, Mr. Welch, Mr. Murphy, let me ask you, my impression is—and I am not an economist, I'm not even a numbers person—that our economy is currently growing at a rather anemic 2 percent, that at times in the past this economy has grown at 4 to 5 percent, that in fact the economy in Chile is growing at 6 to 7½ percent.

Do you have reason to believe that this arbitrary, government-dictated price setting—that is, us increasing the minimum wage—will help or hurt the economic growth of this economy, which is, you know, charging along at 2 percent right now?

Mr. WELCH. Is that a softball?

Mr. NISKANEN. Well, it can't help. But I think there may be reason to argue about how much it hurts, but it clearly can't help. The idea somehow that the economy is growing at a slow rate because

of the minimum wage is not adequate I think is just beyond comprehension.

Mr. SHADEGG. Mr. Murphy.

Mr. MURPHY. Yes, I have a couple of things to add.

Professor Montgomery brought up earlier the notion that there have been big expansions in the return to schooling and experience differentials, the returns to accumulating skills and what we in the profession would call human capital—that is, skills and education and things possessed by the workers—that the gain to increasing those is greater than ever.

And when you see such an increase in returns, there are really two types of policies the Government could possibly adopt. One would be to try to foster investment and take advantage of those skills and take advantage of those returns, saying, look, the premium for increasing our skills of our work force and therefore growing the economy as a whole is greater today than probably any time in the last 50 years.

So a policy to try to encourage investment, and that would be encouraging people to go to school, that would be encouraging the people who are not in school to be able to get jobs and accumulate those skills on the job, the most effective place for many of those people.

The alternative of trying to counteract this by somehow compressing back, pushing the world back to where it was, is, in fact, not only not going to allow us to take advantage of the tremendous returns on investment today but actually slow down the growth of the economy. And I think that holds for the minimum wage and a whole range of policy choices.

I would rather like to see us address the higher differences in incomes and greater returns to skills and human capital by facilitating investment in those skills rather than trying to artificially compress the differentials and thereby really discourage the very investment that would be the saving grace of our economy in this case.

Thank you.

Mr. SHADEGG. Mr. Chairman, if I could just conclude with one quick question.

Mr. Welch, I noticed that Mr. Montgomery seemed to minimize the effect of your charts. I mean, he said, well, if the economy was really very sensitive to an increase in the minimum wage, we would have seen much more dramatic effects.

I personally thought the effects shown by your charts were rather dramatic, but I thought you ought to be afforded an opportunity to respond.

Mr. WELCH. Well, I just wondered if we had looked at the same picture.

What is true is that following the increase, the 1991 increase, we have not seen the rebound—the rebound in teenage employment that you suspect that you might have seen holding the nominal minimum wage constant.

Part of that, of course, was a prolonged recession. But the recession is over. Part of it is the fact that Mr. Montgomery was talking about, and that is that, at the lower parts of the wage distribution, productivity has been falling. Wages have been falling. That's the

kind of inequality that Kevin is talking about. And the real bite of the minimum wage has hung up there. It is continued to stay expensive.

If one goes back and says, let's take the period just prior to minimum wage increases and hypothetically go through the data and increase the minimum wage without any employment effect and say, how much did we raise the cost of teenage labor, if we go to the 1990 increase, we bump the minimum wage by 15 percentage points but we raise the cost of employing teenagers by a tad under 2 percent—that's all—because most people are earning above the minimum wage anyway, and many, or the majority, are earning above the new minimum, where it is going.

Again, in 1991, we raised it another 2 percent, cumulatively a tad under 4 percent.

If we make the increase that's on the table now, it looks like we are going to raise it 7 or 8 percent, so in nominal terms the same 90 cents is going to have a bite into the wage distribution that's twice as big as what we were looking at before.

You saw the employment effects before. Numbers don't lie. And, you know, liars may work with the numbers, and, you know, you know about statistics, but for my money there was a dramatic effect, and I think you are talking about something much more serious right now.

Mr. SHADEGG. Thank you very much.

Mr. MCINTOSH. Thank you, Mr. Shadegg.

Let me say as to your idea of procuring a tape, we will work with C–SPAN to see if we might be able to see that, and I think your suggestions on who they should be distributed to would be good.

I suspect that Mr. Peterson, who did want to be here today but, unfortunately, had a conflict with another hearing, would also appreciate the ability for us to make all of the testimony today as widely available as possible, because I think it is very compelling, and I thank you for that suggestion.

Let me turn now to our colleague from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

Professor Welch, you started your remarks this morning essentially saying, "Relative to what?" And I think that's an interesting concept, and I have been thinking about that.

And, in fact, maybe first I want to question Professor Montgomery, because while you favor raising the minimum wage, would you argue that if we raised the minimum wage to, say, $100 an hour, that there—at some point there is a consequence to this decision?

And if I understand your testimony, you are saying that a 45-cent-an-hour or 50-cent-an-hour raise per year over the next 2 years really would have a smaller consequence than some of the other professors have stated. Is that essentially what you are telling us?

You would agree that if you raise it to $100 an hour, it would have a dramatic consequence?

Mr. MONTGOMERY. Absolutely. I don't think that one could constitute that magnitude of an increase and not expect to have dramatic changes in employment.

The point that I wanted to summarize was simply that the effect that we are talking about, this is a relatively modest change in the minimum wage, and that although Professor Welch's graph showed us the supply curves do slope upwards, the question is, how sensitive is that curve? And the evidence suggests that it is relatively insensitive, so that you would have a small effect associated with a change—this size change in the minimum wage. But clearly if you were contemplating $20-, $30-an-hour minimum wage, you would expect much bigger.

Mr. GUTKNECHT. But it seems to me the issue before the Congress now is—and I would also maybe say to the other professors, would any of you advocate a zero minimum wage?

I mean, a New York Times editorial—OK, one, two, three. So you would say no minimum wage at all?

Mr. WELCH. I am sorry, I don't recall the name of the gentleman who was on the right-hand side of the last panel.

Mr. GUTKNECHT. Mr. Uqdah.

Mr. WELCH. But he had it exactly right. I mean, it is not that people are going to be paid zero. That's crazy.

I mean, people have a right to protect their own interests, and they are knowledgeable.

I mean, when people are uninformed, there may be some excuse for intervention, but otherwise people protect their own interests, and one thing—one of the hardest economy lessons to learn apparently for tamperers is that one man's meat is not necessarily another man's poison, and it can be mutually beneficial to work out a deal that's going to allow for wage progression along with productivity accumulation. And you see it again and again, and you do not have to sort of put in these arbitrary floors that only impede opportunities for the accumulation of skill.

Mr. MURPHY. Yes, I think the evidence is very clear that if you reduce the minimum wage, even if you reduced it to zero, that's not going to mean that—people have this false conception that somehow all of these minimum wage workers are going to go to zero. In fact, that's so far from the case that, you know, it is really ludicrous; that, in fact, as we saw the minimum drift down over the 1980's in real terms because as it was not increased, it stayed constant in nominal terms, wage growth and inflation, of course, eroded the real minimum. The fraction of the people at the minimum went down steadily. Most of the people held their ground with wages. Wages did—were allowed to fall, and more people were able to get employment at, though, somewhat lower wages.

And so we are not talking about pulling the rug out from under people, we are really talking about opening up opportunity for a great deal more individuals. So there will be some reductions in wages, but, you know, once you reduced it 20 or 30 percent from the current level, you really—there wouldn't be much beyond that that would matter at all.

Mr. NISKANEN. We should recognize the minimum wage is a form of price controls and it has many of the same effects as price controls—queing, a deterioration in quality, and so forth.

The queing in this case takes place in the form of increased number of people who want the minimum wage jobs but can't get it,

and the deterioration in quality will be a deterioration of the nonwage dimensions of the labor relationship.

Most economists have come to recognize that price controls are foolish. I am just really surprised to find that there are still economists who believe that price controls in this particular area have any merit whatsoever.

This particular one has no merits on the basis of a redistribution program because it is particularly ineffective in redistributing income to workers from poor families.

A very large portion of the benefits accrue to people in families with incomes of three times or more the poverty line, and so I don't see it has—it has no merits whatsoever as a means of increasing the efficiency of the economy, and I think it has extraordinarily poor qualifications for redistributing income if the purpose is to redistribute it toward the poor.

Mr. GUTKNECHT. I am wondering—I do want to get back to another point that's been raised earlier. We have had some discussion when we have been—when NAFTA was passed and so forth, that American labor couldn't compete with 17-cent-an-hour labor in other parts of the world.

What are the consequences—have you done any studies? Would any of you care to comment on what the ability of America to compete in the world marketplace—what happens when we artificially set wages?

Mr. NISKANEN. Our most formidable competitors are not countries like Bangladesh but are countries like Japan, and so the wage rates themselves are a very small part of that issue. It is labor costs per unit of output, and it is comparative—the productivity of these countries is the key reason why Bangladesh can't compete and why Japan can with wages that are comparable, if not higher, than those in the United States.

Now, I think that it is plausible, although the numbers are not yet in, that the expansion of trade has contributed to the wider spread of the wage distribution. There's a big argument among economists on that issue, and I think that at least the hypothesis is plausible. I do not find it plausible that the increased spread in the wage distribution is a consequence of the erosion of the real minimum wage.

Mr. WELCH. There is an argument that a minimum wage could help U.S. labor. That, of course, would involve imposing the minimum in other countries, and if you could just do that, it might work.

Mr. MCINTOSH. If the gentleman would yield for a second, isn't that the point, that we cannot legislate a minimum wage for Japan, China, Mexico, any other country, and that in a relatively free-market economy the inability to impose that type of regulations elsewhere puts us at a real disadvantage?

Mr. WELCH. That's pretty much the argument. There's—we also haven't been able to devise a minimum wage for self employed. And I have argued elsewhere that a real high minimum would go a long way toward preserving the family farm. That might help in Minnesota.

Mr. GUTKNECHT. Mr. Chairman, if I might say, though, I think in some respects the argument is even bigger than that, because

while I am not an economist, I am an auctioneer and I do understand the ultimate law of the economic universe, and it is called the law of supply and demand, and we have tried a lot of things, but we have never been able to repeal that, and ultimately markets are probably more powerful than any mandates that we pass here in this Congress anyway. I mean, markets will prevail. They even prevailed in the former Soviet Union.

I do want—if I could have one last question, Mr. Chairman, I would like to get a comment from Professor Montgomery, and I do appreciate him coming here today and his testimony.

But I assume that you heard Mr. Uqdah and talked a little bit about Washington, DC, because maybe that's a good example—maybe it is not—where we have artificially set wage levels even higher than the national minimum wage, and at least to a layman who looks at Washington, DC, and all the problems we have, at least in some respects you can argue that teenage unemployment is even higher in Washington, DC, than it certainly is in the surrounding suburbs or other metropolitan areas.

Would you care to comment on that, or is that just an anomaly, or are there a lot of other factors?

Any advice, comment, suggestion?

Did you hear Mr. Uqdah's testimony?

Mr. MONTGOMERY. I caught the tail end of his testimony, so I am sorry if I end up mischaracterizing his argument.

I guess the response to that would simply be, as with your other question, if you have too high a minimum wage, that employers will either reduce their employment of workers or try and move elsewhere to try and avoid that. To a degree—that might very well exist.

Whether that is the explanation for the relative high unemployment rates of youth in Washington, DC, I have some problems with that. One, because among adults or nonminimum wage workers, it is also the case that the unemployment rates in Washington, DC, are appreciably higher than they are in the surrounding suburbs of Virginia and Maryland.

So something else is going on besides any impact of the minimum wage which is also contributing here. Whether the minimum wage is a part of that picture I can't say, not having studied that conclusively, but it could be a part of the picture, but my guess is that it is a small part, at best, or worst, of that picture.

Mr. GUTKNECHT. Thank you.

Mr. MCINTOSH. Great. Thank you, Mr. Gutknecht. And thank you, members of the panel, for joining us today. Your complete testimony and charts will all be made a part of the record.

Let me close this hearing by saying that I hope that this Congress can rise above politics in making this decision. I think the opponents and the proponents of the minimum wage increase all want the same thing, which is to raise the standard of living, and for those who are perhaps at the lowest rungs of our economic ladder.

But as President Clinton said—and I come back to this again—it is the wrong way to increase incomes of low-wage earners, and what we heard from today were real people who will be hurt by that.

We heard from Don Baisch, who used to be on welfare—is now, he tells me after the hearing—taking care of his little daughter, Mia, on his own; earning a living, working in a job because he was able to start out at minimum wage.

We heard from Mr. Hellgeth and that disabled workers will be disadvantaged if we make this increase. We heard from Professor Neumark that blacks and Hispanics are disproportionately harmed among the population, whether it be small or large, who are disadvantaged if we raise the minimum wage.

We know from testimony that the elderly are disadvantaged and that Mr. Uqdah's kids here, minority kids who are in the juvenile system, who want to start their own business and start to have the American dream, will be disadvantaged because he won't be able to help them out. He won't be able to be their guardian angel.

So there are real people who are harmed when we do the wrong thing here in Congress. But what I am hoping we can do is rise above it and do the right thing, find a way to truly help people increase their take-home pay so that we don't punish those who are disadvantaged.

I think it may take a tradeoff by reducing somewhat our welfare payments, which end up being about $9 an hour in Indiana, and reducing the taxes on people who are earning income at the lowest brackets. The exact way to do that, as people have said, the devil will be in the details.

There has got to be, though, a better way than a regulation that punishes some people in a well intended effort to make others better off, and I continue to strive to work toward that.

This committee will stand in recess until Thursday, when we have a second hearing on this issue, on the cost of Government. In that second hearing, we will be looking at the cost of regulation and litigation and why that takes away from the ability of small businesses to be able to increase pay for their workers.

Thank you all for coming. The committee will stand adjourned.

[Whereupon, at 12:35 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

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1302 Union Street, Eureka, CA 95501
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May 19, 1996

Ms. Melody Rane
Burger King
417 S Street
Eureka, California 95501

Dear Melody,

I am fortunate to have seen your testimony before the subcommittee on the impact of the minimum wage increase. I commend you for your heartfelt statements and the courage that you summoned to deliver them.

I, too, am a small business owner. Although a minimum wage increase would not immediately impact our business as we start employees well beyond the minimum wage, we would be impacted soon enough by the snowball effect. I support your plight as it relates to your particuler type of business and as it relates to business in general.

I want to thank you for expressing many of my own concerns. I am also tired of the "bashing" of business owners. I know that most of us truly care about the welfare of our employees and do all that we can to treat them justly.

Your strength has given me initiative. You are a hero.

Sincerely,

Ann Clark

Ann Clark

Sharon R. Beard
Hurricane Fence Company
PO Box 20216
Springfield, IL 62708-0516
217-523-8186

May 19, 1996

Rep. David M. McIntosh
U.S. House of Representatives
Washington D.C. 20215

Re: Impact of increasing the minimum wage

Dear Rep. McIntosh,

I once testified before you in Bloomington, Illinois regarding the cost and impact of government regulation on small business. My husband and I, own a fence company in Springfield, Illinois. Yesterday while doing work on my computer, I caught portions of the testimony regarding the impact of increasing the minimum wage. I would like to add the following points, and I hope you will share them with your committee.

Generally there is agreement throughout the small business sector in opposing any increase in the minimum wage, with the majority of business owners like myself saying that it will hurt those, whom it intended to help the most. I can not stress the following points enough:

1: The lowest of income household who currently receive some benefits for housing and medical, will be the big looser. My mother-in-law who received social security has less money for food, after every COST of LIVING increase she has received. When she gets her increase her rent is adjusted up and her spend-down for medical assistance is also adjusted up. Both increases have always exceeded the increase in the benefits she receives. Increasing the minimum wages would have the same effect on many, creating an added incentive not to work.

2: No small business can hire trained skilled quality workers at minimum wage. The problem in many cases isn't the wages paid, but the work ethic. I have had numerous employees in the past who could have worked in excess of 40 hours per week, who typically have averaged 24-26 hours per week at $10.00 per hour and then complained about the paychecks. We all must remember that, like it or not, employees are an investment and if they are not able to provide a return on the investment, that exceed both direct and indirect costs associated with the production, everyone suffers. Many are unaware that while they

may only make $10.00 per hour that by the time workers compensation, insurance costs, FICA, FUTA, Medicare and other associated costs can more than double the direct cost of labor.

If it costs me more to hire an individual than that person produces, I cannot stay in business. Unlike Washington, small and large businesses alike can not operate on such deficits, we are not in business to provide charity, we are trying to earn a living and feed our own children. In many cases, small business owners are lucky to make as much as their employees.

I caught a brief concept that I think would make a realization. I know of many small business owners who wished they earned the minimum wage. How can you expect small business owners to be mandated to provide for their employees, things they are unable to provide for themselves. An increase in minumum wage is an unfunded mandate of everyone.

I would also be happy to discuss some of the labor issues which resulted from the White House Conference on Small Business. I drafted recommendations 105 & 203. We need some help on these labor reforms, as well.

If you have any questions please feel free to call me or write.

Sincerely,

Sharon A. Beard

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